

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2015 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	11 th May 2015
TIME:	4:00 p.m. to 6:00 p.m.

Answer ALL questions. Question 1-10 are multiple choice and carry 2 marks each. Questions 11-14 carry 20 marks each.

Write on the booklet the correct **answer** for each of the following.

1. The cash float in the petty cash book is taken from
 - a) the bank statement.
 - b) the journal.
 - c) the cash book.
 - d) the bank loan account.

2. The proceeds from the sale of a non-current asset requires the following double-entry:

<i>Debit</i>	<i>Credit</i>
a) Cash account	Sales account
b) Cash account	Non-current asset account
c) Bank account	Income statement
d) Cash account	Disposal account

3. The allowance for doubtful debts account had a credit balance of €850 on 1 January 2014. On 31 December 2014 the allowance account balance was revised and the new balance was €1,000. The entries in the allowance for doubtful debts accounts should be

<i>Account debit</i>	<i>€</i>	<i>Account credit</i>	<i>€</i>
a) Income statement	150	Allowance for doubtful debts	150
b) Allowance for doubtful debts	150	Income statement	150
c) Income statement	1,000	Allowance for doubtful debts	1,000
d) Trade receivables	1,000	Allowance for doubtful debts	1,000

4. A credit balance in a trade receivable account arises when
 - a) the customer settles the account.
 - b) the full settlement of the account is followed by sales returns.
 - c) there is a credit sale.
 - d) there is a set-off with a trade payable account.

5. The information for the preparation of the purchases returns day book is obtained from
- credit notes received.
 - invoices received.
 - invoices sent out.
 - none of the above.
6. The net profit for the year of a business was €75,000. The proprietor has withdrawn €42,000 from the bank and took goods costing €3,000 for personal use. He used €25,000 to buy new machinery for the business. The increase in capital is
- €5,000.
 - €75,000.
 - €30,000.
 - €25,000.
7. A prepaid insurance expense at the end of the financial year of €500 had not been taken into account when making the end of year adjustments for the preparation of the financial statements. The net profit and the current assets in the statement of financial position are
- correct.
 - understated.
 - understated net profit and overstated current assets.
 - overstated net profit and understated current assets.
8. Charles and Paul are partners in a business sharing profits and losses equally and their share of profit for the year was €8,000 each. Profits are shared after allowing for €10,000 each for salaries and for 5% interest on capital. The partners had invested €50,000 capital each. The net profit for the year is
- €16,000.
 - €41,000.
 - €21,000.
 - none of the above.
9. Which of the following expenses is not classified as a fixed cost?
- Insurance expenses.
 - Administrative salaries.
 - Heating and lighting expenses.
 - Production direct wages.
10. A machine costing €18,000 and requiring an installation cost of €2,000 was purchased in January 2012. The reducing balance method of depreciation is applied charging 20% per annum. The net book value of the machine on 31 December 2014 is
- €9,216.
 - €9,760.
 - €10,240.
 - €10,800.

- 11.** a) Identify **four** users of accounting information and state for each user the need for this information. (4 marks)
- b) What is the difference between the profitability and the liquidity of a business? (2 marks)
- c) List **two** reasons why businesses may fail. (2 marks)
- d) The following information relates to two local retail stores owned by Sara and Gorg respectively:

	Sara	Gorg
	€	€
Current assets (total)	60,000	55,000
Current liabilities	40,000	40,000
Non-current assets	180,000	177,000
Sales	800,000	450,000
Gross Profit	125,000	112,500
Net Profit	45,000	36,000
Closing inventory	15,000	20,000

Using the figures given above, calculate the following for each business:

- i) Gross profit margin (%) (1 mark)
- ii) Net profit margin (%) (1 mark)
- iii) Return on capital employed (%) (2 marks)
- iv) Current (working capital) ratio (2 marks)
- v) Acid test (quick) ratio (2 marks)
- e) Comment on the performance and the liquid position of each business analysing the above ratios. (4 marks)

Please turn the page.

- 12.** a) Name **two** purposes of accounting. (2 marks)
- b) Name and explain **three** accounting concepts giving examples of instances when these concepts are applied. (6 marks)
- c) What is the difference between a ledger and a journal? (2 marks)
- d) Name **four** books of original entry. (2 marks)
- e) On 31 March 2015 the bank account in the cash book of Quick Supplies Ltd showed a credit balance of €1,250. On the same date the business received the bank statement but it had a different balance from that in the cash book.

Upon examining the bank statement it was noticed that:

- Bank charges of €275 had not been entered in the cash book.
- Cheques received amounting to €4,500 and deposited into the bank had not been included in the bank statement.
- Cheques paid to suppliers amounting to €2,600 were not yet presented to the bank.
- A standing order of €1,500 for the loan repayment and a credit transfer of €2,300 in respect of a receipt from a customer had not been entered in the cash book.

Required

- i) An updated cash book at 31 March 2015. (4 marks)
- ii) A bank reconciliation statement at 31 March 2015. (4 marks)

13. a) Describe briefly single entry and double entry book-keeping. (2 marks)
- b) What is the purpose of a trial balance? (1 mark)
- c) Distinguish between capital and revenue expenditure. (2 marks)
- d) Describe the difference between cash and trade discounts. What is the difference in the accounting for trade discounts and cash discounts? (2 marks)
- e) Jayden started a business on 1 April 2014 but he was too busy to maintain a full set of accounts. However, he was able to provide you with the following information:

- A summary of the bank transactions for the year ended 31 March 2015 includes the following receipts and payments:

	€
Receipts from trade receivables	190,000
Payments to trade payables	108,000

- In addition to the credit sales, Jayden had a few cash customers. The cash received was not deposited into the bank but instead it was used to pay for maintenance and cleaning €6,500 and general expenses €4,500.

A cash float of €500 was in the business at 31 March 2015.

- Other balances at 31 March 2015:

	€
Inventory	24,000
Trade receivables	27,000
Trade payables	18,000

Required

- i) A trade receivables control account; (3 marks)
- ii) A trade payables control account; (3 marks)
- iii) A cash account; (4 marks)
- iv) An income statement for the first year in business showing **only** the measure of gross profit (trading account). (3 marks)

Please turn the page.

14. Study the following extract from the statement of financial position at 31 March 2015 of Prospero PLC and then answer the questions below.

	€
Authorised share capital	
€2 Ordinary share capital	800,000
Issued share capital	
€2 Ordinary share capital	500,000
Share premium	100,000
Retained earnings 1 April 2014	300,000
Net profit for the year	180,000
	1,080,000
6% Debentures	200,000
	1,280,000

The current market value of an ordinary share is €5.

- a) i) Calculate the annual interest payable by the company. (2 marks)
 ii) Distinguish between debentures and ordinary shares. (2 marks)
- b) i) Calculate the number of ordinary shares issued by the company to date. (2 marks)
 ii) What is the difference between authorised share capital and issued share capital? (2 marks)
- c) Distinguish between the share premium account and the retained earnings account. (2 marks)
- d) The directors of the company paid an ordinary dividend of €0.16 per share.
 - i) Calculate the total dividend payments to the ordinary shareholders. (2 marks)
 - ii) Calculate the retained earnings balance at 31 March 2015. (3 marks)
- e) Luke currently holds 60,000 ordinary shares in Prospero PLC.
 - i) Calculate the amount of dividend that he has earned this year. (2 marks)
 - ii) Luke cannot understand the difference between the nominal value of a share and its market value. Explain the terms nominal price and market price, and explain to Luke the impact that the market value has on his investment in the company. (3 marks)

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2015 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	IIA
DATE:	12 th May 2015
TIME:	4:00 p.m. to 6:00 p.m.

Answer BOTH questions in Section A and ANY TWO questions from Section B.

SECTION A: Answer BOTH questions in this Section. This Section carries 60 marks.

1. Pawla Fenech, a sole trader, employed an inexperienced accounts executive who prepared the ledger accounts and subsequently a trial balance at 31 March 2015 the end of the financial year. The trial balance failed to agree and a suspense account has been opened for this difference.

	€
Purchases	58,660
Carriage on Sales	3,000
Sales	107,500
Inventory 1 April 2014	11,200
Motor Vehicle	25,000
Office Equipment	16,000
Rent Expense	2,300
5% Bank Loan	9,000
Sales Returns	1,450
Purchases Returns	1,620
Bank	3,120
Sundry Expenses	1,900
Wages paid to Assistants	25,000
Trade Receivables	35,000
Trade Payables	28,000
Drawings	9,500
Commission Received	1,500
Capital	48,680
Suspense (Dr)	4,170

The following errors and omissions were subsequently discovered:

- i) A page in the purchases day book of €1,580 was carried forward as €1,850.
- ii) Sales returns of €630 were recorded on the credit side of the purchases returns account.
- iii) A cheque payment of €1,365 to S.Muscat was correctly entered in the bank account but it was credited in the personal account in the purchases ledger.
- iv) A trade payable account of €1,800 of P.Vella, and a trade receivable account of €2,500 for the same person had to be offset but the set-off had been overlooked.
- v) A trade receivable who owed Pawla Fenech €800 was declared bankrupt. The debt was to be written off as irrecoverable but no accounting entries were made.

- vi) Office equipment purchased during the year costing €15,000 was recorded in the purchases account.
- vii) Rent prepaid on 1 April 2014 of €450 had not been brought down as an opening balance.
- viii) The bank statement shows that interest on loan has been debited in the bank current account but no entries were made in Pawla Fenech's books.

Required

- a) The journal entries to correct the above errors (narratives are not required). (17 marks)
- b) A suspense account starting from the balance in the list of balances. (6 marks)
- c) A corrected trial balance. (7 marks)
- (Total 30 marks)
2. The Gnejna Sports Club has never kept a full set of accounting records. However, this year the members of the club asked for the preparation of a comprehensive set of financial statements to assess the organisation's performance and financial position. The treasurer managed to extract the following details from the records that are available:

Balances as at:	1 April 2014	31 March 2015
	€	€
Equipment	12,000	?
Fixtures & fittings	19,000	?
Prepaid subscriptions	265	135
Accrued subscriptions	100	75
Water and electricity due	385	640
Prepaid insurance	600	350
Bar inventory	1,250	1,650
Bar payables	2,160	3,200
Cash & bank balances	4,700Dr	4,495Cr
5% Loan	4,000	?
Accumulated fund	30,840	?

A summary of receipts and payments for the year ended 31 March 2015 is as follows:

	€
Subscriptions:	
for the year ended 31 March 2014	80
for the year ended 31 March 2015	6,500
for the year ended 31 March 2016	135
Donations to charities	700
Bar receipts	26,550
Payments for bar purchases	18,750
Bar wages	5,200
Rent of clubhouse	4,200
Insurance	1,300
Water and electricity	2,100
Purchase of new equipment	3,600
Sale of equipment	650
Purchase of new fixtures	6,000
Competition expenses	210
Competition registration fees	950
Loan repayment	2,000

The following additional information is also available:

- i) It is the club's policy to write off any subscriptions that have been in arrears for more than one year.
- ii) Half of the fixtures and fittings are for the use of the bar.
- iii) Depreciation is to be charged on the net book value of the non-current assets held at year-end at the following rates:
 - 20 % Equipment
 - 5 % Fixtures & Fittings
- iv) The book value of the equipment sold during the year was €900.
- v) The loan repayment was made on 31 March 2015 but the interest expense was still unpaid.

Required

- a) The subscriptions account. (6 marks)
 - b) The bar income statement for the year ended 31 March 2015. (9 marks)
 - c) An income and expenditure account for the year ended 31 March 2015 and a statement of financial position at that date. (15 marks)
- (Total 30 marks)

Please turn the page.

SECTION B: Answer any TWO questions. This Section carries 40 marks.

3. The following information for the financial year ended 31 December 2014 relates to the business of Charles Ellul:

i) ***Loan interest***

A loan of €50,000 was received on 1 April 2014. Annual interest of 5% on the total amount borrowed is paid half yearly on 30 September and 31 March.

ii) ***Insurance***

On 1 April 2013 the annual insurance premium of €24,000 was paid.

On 1 April 2014 the business renewed the insurance cover making a cheque payment of €33,000 for fifteen months ending 30 June 2015.

iii) ***Rent***

The rent of the business premises is €2,500 monthly payable in advance on 1 March, 1 June, 1 September and 1 December. The annual rent expense has remained unchanged from last year and the business has always paid out cheques on the due dates.

iv) ***Allowance for Doubtful Debts***

On 1 January 2014 the allowance for trade receivables was €3,500 which was for three specific accounts of €1,200, €800 and €1,500 respectively. During the year ended 31 December 2014 the trade receivable account of €1,500 was written off as an irrecoverable debt and the account of €800 was received in full. On reviewing the trade receivable balances at 31 December 2014, it was considered to be prudent to make a specific allowance for another account of €1,550 which had been long overdue and it was unlikely to be received.

v) ***Allowance for Depreciation – motor vehicles***

The following information relates to the motor vehicles owned by the business:

	Cost	Net book value
1 January 2014	€75,000	€48,500

On 1 April 2014, a vehicle purchased on 1 July 2013 for €30,000 was completely destroyed in an accident and an insurance claim was made.

On 15 December 2014 the insurance company issued a cheque of €10,500 payable to the business in settlement of the claim.

It is the policy of the business to depreciate vehicles at 20% on cost annually, charging depreciation for each month of ownership.

Required

Prepare for the year ended 31 December 2014:

- a) The interest on loan account. (2 marks)
 - b) The insurance account. (4 marks)
 - c) The rent account. (4 marks)
 - d) The allowance for doubtful debts account. (4 marks)
 - e) The allowance for depreciation account. (3 marks)
 - f) The asset disposal account. (3 marks)
- (Total 20 marks)

4. Gorg Xerri produces a single model of standard solar panels. The following figures were obtained from the books for the year ended on 31 December 2014.

	€		€
Inventories 1 January 2014:		Royalties	12,000
raw materials	40,000	Factory cleaning	9,000
work in progress	65,000	Transport of raw materials	24,000
Office salaries	33,500	Lighting & heating	12,000
Power	26,500	Production wages	353,000
Insurance	27,000	Indirect materials	7,000
Rent	54,000	Inventories 31 December 2014	
Purchases of raw materials	410,000	raw materials	42,000
Machine maintenance	16,500	work in progress	27,000
Factory machines	400,000	finished goods	?
Office equipment	46,000	Sales	?

Additional information:

- i) Production wages include indirect factory wages €35,000.
- ii) Depreciation is provided on all non-current assets at 10% of the carrying value.
- iii) The apportionment of expenses between factory and administration is as follows:

	Factory expenses	Administrative expenses
Insurance	$\frac{2}{3}$	$\frac{1}{3}$
Rent	$\frac{2}{3}$	$\frac{1}{3}$
Lighting & heating	$\frac{1}{2}$	$\frac{1}{2}$

- iv) During the year 2,000 solar panels were produced and 1,920 were sold for €900 each. On 1 January 2014 Gorg Xerri did not have any finished solar panels in inventory.

Required:

- a) A manufacturing account for the year ended 31 December 2014. (12 marks)
 - b) An income statement for this financial period. Workings for the valuation of closing inventory of finished goods and sales revenue are to be clearly shown. (8 marks)
- (Total 20 marks)

5. Top Sports Ltd is a retail business that has two main departments at its retail outlet in Valletta – Sports Equipment and Sports Clothing. The following is an extract from the trial balance as at 31 January 2015:

	€
Sales	
Sports Equipment	450,000
Sports Clothing	300,000
Inventory at 1 February 2014	
Sports Equipment	75,000
Sports Clothing	50,000
Non-current assets (Net Book Value)	150,000
Purchases	
Sports Equipment	200,000
Sports Clothing	125,000
Accrued water & electricity 1 February 2014	2,500
Water and electricity	27,000
Wages and salaries	58,500
Rent of building	46,500
Communication expenses	2,600
Administrative expenses	45,000
Prepaid insurance 1 February 2014	8,000
Insurance payments for the year ended 30 April 2015	36,000
Discounts allowed	3,800
Transport expenses	15,000
Advertising	32,500
Trade receivables	29,000
Trade payables	41,500
Bank overdraft	7,250

Additional information:

- i) Inventory as at 31 January 2015:

	€
Sports Equipment	45,000
Sports Clothing	30,000

- ii) The rent of the business is €48,000 a year.
 iii) Accrued expenses at 31 January 2015 were:
 Water & electricity €2,000
 Communication expenses €400
 iv) Depreciation on non-current assets is to be calculated at the rate of 20% per annum on the carrying value of the assets at year-end.
 v) Only the Sports Equipment department allowed discounts.

- vi) Expenses are apportioned between the two departments as follows:
- Salaries and wages, administrative expenses, communication expenses and transport expenses in proportion to turnover;
 - Water and electricity, insurance and rent in proportion to floor area;
 - Floor area of the respective departments is:
 - Sports Equipment 75%
 - Sports Clothing 25%
- All other expenses are to be apportioned equally between the two departments.

Required

- a) A columnar income statement for the year ended 31 January 2015, showing the gross profit and the net profit earned by each department. (Total columns are not required).
(16 marks)
- b) List the current assets and the current liabilities at 31 January 2015 calculating the working capital of Top Sports Ltd.
(4 marks)

(Total 20 marks)

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

SECONDARY EDUCATION CERTIFICATE LEVEL

MAY 2015 SESSION

SUBJECT:	Accounting
PAPER NUMBER:	IIB
DATE:	12 th May 2015
TIME:	4:00 p.m. to 6:00 p.m.

Answer BOTH questions in Section A and ANY FOUR questions from Section B.

SECTION A: Answer BOTH questions in this Section. This Section carries 40 marks.

1. The treasurer of the Stay Fit Club has prepared the following receipts and payments account for the year ended 31 March 2015:

	€		€
Bank balance	500	Rent of clubhouse	11,000
Cash balance	100	Competition expenses	1,500
Subscriptions	10,150	Postage & stationery	470
Competition fees	850	Water & electricity	1,215
Revenue from activities	2,400	Gym equipment	5,000

Additional information:

Balances at 31 March	2014		2015
	€		€
Sports equipment (book value)	28,000		31,000
Subscriptions owing	650		850
Subscriptions prepaid	150		100
Accrued rent	1,000		2,000

Required:

- a) The accumulated fund as at 1 April 2014. (5 marks)
- b) The subscriptions account. (5 marks)
- c) The income and expenditure account for the year ended 31 March 2015. (10 marks)
- (Total 20 marks)

2. The following information relates to the partnership of Angela and Berta:

- Angela and Berta had agreed to share profits and losses 3:2 respectively.
- Interest on capital is agreed at 5% per annum.
- The net profit for the year ended 31 December 2014 was €74,000.

	Angela €	Berta €
Capital 1 January 2014	170,000	100,000
Drawings during the year ended 31 December 2014	28,500	24,500
Salary per month	1,200	1,200
Current account balances: 1 January 2014	1,250Dr	2,100Cr

Other balances at 31 December 2014:

	€	€
Loan		30,000
Trade payables		17,000
Buildings	300,000	
Equipment	25,750	
Accrued expenses		1,500
Prepaid expenses	2,500	
Bank overdraft		4,500
Cash	500	
Inventory	16,100	

Required

- An appropriation account for the year ended 31 December 2014. (6 marks)
 - The partners' current accounts. (6 marks)
 - The statement of financial position at 31 December 2014. (8 marks)
- (Total 20 marks)

SECTION B: Answer ANY FOUR questions from this Section. This Section carries 60 marks.

3. Francesco is an inexperienced junior accountant. He has drawn up a trial balance but it failed to agree. On further examination he finds the following:

- A purchases invoice of €250 had not been posted to the accounts.
- A purchase of a machine for €15,000 had been posted to the purchases account.
- Payments of electricity bills €900 have been correctly posted in the cash book but no other entry had been made.
- Receipts of €1,200 from cash sales had been entered in the sales account as €2,100.
- Purchases returns €310 have been correctly debited in the trade payable account but incorrectly listed in the sales returns book.

Required

- The journal entries to correct the above errors (narrations are not required). (10 marks)
 - The suspense account showing the difference in the trial balance. (5 marks)
- (Total 15 marks)

4. Chiara started a business three years ago buying equipment costing €60,000. At the end of **year 1** Chiara decided to charge depreciation at the rate of 15% per annum by the straight line method.
- She maintained this depreciation policy for the three years.
 - A friend suggested to Chiara that the reducing balance method would have been a better method, charging 20% per annum.

Required

- a) The allowance for depreciation account for the three years using the straight line method. (12 marks)
- b) Calculate the annual depreciation charge for each of the three years using the reducing balance method as suggested by Chiara's friend.

(3 marks)
(Total 15 marks)

5. The following balances were extracted from the books of Lara on 31 March 2015:

	€
Non-current assets	200,000
Bank	39,000
Cash	1,000
Sales	
Confectionery	52,000
Stationery	120,000
Purchases	
Confectionery	38,000
Stationery	90,000
Inventory 1 April 2014	
Confectionery	2,500
Stationery	12,000
Water and electricity	5,600
General expenses	2,000
Communication expenses	3,200
Insurance	2,500
Commission received	500
Drawings	21,200
Trade payables	20,500
Capital	?

Additional information on 31 March 2015:

- i) Inventory at cost:
- | | |
|---------------|---------|
| Confectionery | €3,500 |
| Stationery | €14,000 |
- ii) A water and electricity bill of €420 was still unpaid at the end of the year.
- iii) Non-current assets are depreciated by 10%.

Required

- a) The calculation of capital. (3 marks)
- b) An income statement showing the gross profit for each of the two departments and the net profit of the business as a whole for the year ended 31 March 2015.

(12 marks)
(Total 15 marks)

6. The following figures relate to the Small Tools Manufacturing Company for the year ended 31 December 2014.

	1 January 2014	31 December 2014
	€	€
Inventories:		
Raw materials	38,500	41,200
Works in progress	14,000	15,500
Finished goods	65,000	67,000
Direct expenses		6,500
Carriage inwards of raw materials		1,250
Factory rent		12,000
Factory electricity		8,600
Machine maintenance		11,250
Direct wages		95,000
Purchases of raw materials		320,500
Insurance of machinery		9,800
Depreciation of machinery		20,200
Indirect wages		24,250
Sales		750,000

Required

- a) The manufacturing account for the year ended 31 December 2014. (10 marks)
- b) The income statement (trading account section) calculating the gross profit for the year ended 31 December 2014.

(5 marks)
(Total 15 marks)

7. The statements of financial position of Luca’s business prepared on 31 December of each year include the following items:

	2013	2014
	€	€
Current Assets		
Trade receivables	32,000	35,000
Allowance for trade receivables	?	?
Other receivables:		
Insurance prepaid	800	750
Accrued commission receivable	600	900
Current Liabilities		
Other payables:		
Rent unpaid	2,400	1,200

During the year ended 31 December 2014 the following receipts and payments were recorded:

	€
Rent	13,200
Insurance	3,150
Commissions received	2,300

It is Luca’s policy to keep an allowance of 2% of trade receivables at the end of every year.

Required

- a) The allowance for doubtful debts account. (3 marks)
 - b) The rent account (4 marks)
 - c) The insurance account. (4 marks)
 - d) The commission receivable account. (4 marks)
- (Total 15 marks)