

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA**SECONDARY EDUCATION CERTIFICATE LEVEL****MAY 2017 SESSION**

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SUBJECT:	<b>Accounting</b>
PAPER NUMBER:	I
DATE:	4 <sup>th</sup> May 2017
TIME:	4:00 p.m. to 6:05 p.m.

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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.**

- The purchases account is found in:
  - the purchases day book.
  - the purchases ledger.
  - the general ledger.
  - none of the above.
- Office equipment purchased for the administration department was returned to the supplier, The Office Ltd. The correct double entry is:

<i>Debit</i>	<i>Credit</i>
a) Office equipment account	The Office Ltd account
b) The Office Ltd account	Office equipment account
c) The Office Ltd account	Purchases returns account
d) The Office Ltd account	Bank account
- The proprietor of a business had taken inventory for personal use. This withdrawal was not accounted for in the preparation of the financial statements. What is the effect of this omission?
  - Overstated net profit.
  - Understated net profit.
  - Understated net profit and overstated capital.
  - Overstated net profit and overstated capital.
- Identify which of the following is classified as a variable cost.
  - Purchases of raw materials.
  - The payment of insurance.
  - The purchase of a new vehicle.
  - The repayment of the loan.
- The main source of information for the purchase returns day book is obtained from:
  - invoices received.
  - invoices sent out.
  - credit notes received.
  - debit notes sent out.

6. Purchases on credit of €200,000 were subject to a trade discount of 15%. Records show purchases of €200,000. The correction is:

<i>Debit</i>	<i>€</i>	<i>Credit</i>	<i>€</i>
a) Trade payables account	30,000	Purchases account	30,000
b) Trade payables account	30,000	Discount received account	30,000
c) Purchases account	30,000	Discount received account	30,000
d) Purchases account	170,000	Trade payables account	170,000

7. The salary of a partner is recorded as:
- a business expense.
  - an appropriation of profit.
  - a decrease in the partner's current account.
  - an increase in the partner's fixed capital account.
8. A credit balance on the commission receivable account after the transfer to the profit and loss account (statement of profit or loss) indicates:
- revenue for the year.
  - an asset and prepaid revenue.
  - an accrual and a liability.
  - A liability and prepaid revenue.
9. Which of the following expenditure is not classified as a capital expenditure?
- Purchases of machinery.
  - Installation cost of machinery.
  - Shipping cost for the delivery of the machinery.
  - Machine maintenance expenses.
10. Run and Hide are partners in a business sharing profits and losses equally and their share of profit for the year was €18,000 each. Profits are shared after allowing for 5% interest on capital and paying Hide an annual salary of €28,000. Run and Hide had invested €100,000 capital each. The net profit for the year is:
- €36,000.
  - €74,000.
  - €64,000.
  - €44,000.
11. a) Identify and explain the accounting concept applied in the accounting treatment of closing inventory at the end of the financial year. (3)
- b) Identify and explain the accounting concept in selecting and retaining a suitable depreciation method from one year to the next. (3)
- c) 'Non-current assets are valued at cost less depreciation.' Explain why non-current assets are not valued at their current market price and name the accounting concept that determines this accounting treatment. (3)
- d) Name and explain the accounting concept applied in the creation of an allowance for doubtful debts. (3)

- e) Kelinu is the owner of a small business. He did not keep a complete set of book-keeping records. The position of his business at 31 December 2015 and 2016 was as follows:

	<b>2015</b>	<b>2016</b>
	€	€
Property	150,000	150,000
Equipment	80,000	90,000
Motor vehicles	32,000	25,000
Inventory	24,000	32,000
Trade receivables	39,000	46,000
Trade payables	22,000	19,000
Other payables	4,000	3,000
Cash at bank	11,000	12,000

During the year ended 31 December 2016 Kelinu took drawings in cash amounting to €36,000.

**Required:**

Calculate Kelinu's capital at 31 December 2015 and his net profit or loss for the year ended 31 December 2016. (8)

**(Total: 20 marks)**

12. The following information relates to the business of Bags Ltd:

	<b>2015</b>	<b>2016</b>
	€	€
Sales	480,000	600,000
Gross profit	120,000	150,000
Net profit	72,000	99,000
Capital employed	320,000	400 000
Current assets	178,000	210,000
Current liabilities	100,000	140,000

- a) Using the figures given above, calculate the following for **2015** and **2016**.
- i) Cost of sales; (2)
  - ii) Total expenses; (2)
  - iii) Gross profit margin (%); (2)
  - iv) Net profit margin (%); (2)
  - v) Current ratio; (2)
  - vi) Return on capital employed (%). (2)
- b) Analysing the results of the above ratios, state whether there has been an improvement in the performance of the business giving **ONE** reason for your answer. (2)
- c) Distinguish between profitability and liquidity ratios. Give **ONE** example in each case. (3)
- d) Name **TWO** main users of financial statements and state their interest in the business. (2)
- e) What is the purpose of a trial balance? (1)

**(Total: 20 marks)**

13. a) Name **TWO** day books and **TWO** ledgers. (2)  
 b) Distinguish between a bank loan and a bank overdraft. (2)  
 c) Distinguish between a direct debit and a credit transfer. (2)  
 d) What is the difference between a bank statement and a bank reconciliation statement? (2)  
 e) On 31 March 2017 the bank account in the cash book of Monti Ltd showed a credit balance of €3,250. 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 realised that:

- Bank charges of €650 had not been entered in the cash book;
- Cheques received €7,500 and deposited into the bank had not been included in the bank statement;
- Cheques paid to suppliers €4,300 were not yet presented to the bank;
- A standing order of €1,800 for the loan repayment and a credit transfer of €4,100 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 2017. (6)  
 ii) A bank reconciliation statement at 31 March 2017. (6)

**(Total: 20 marks)**

14. Study the following statement of financial position extract and then answer the questions below.

Statement of financial position of Invest Ltd as at 31 March 2017

	€
<b>Issued share capital</b>	
€2 ordinary share capital	500,000
Share premium	100,000
Retained Earnings	400,000
	1,000,000
5% Debentures	200,000
	1,200,000

*Note:* the current market value of an ordinary share is €4.50.

- a) i) Calculate the annual interest that is payable to the debenture holders. (1)  
 ii) Distinguish between debentures and ordinary shares. (2)  
 b) i) Calculate the number of ordinary shares issued by the company to date. (1)  
 ii) Distinguish between share premium and retained earnings. (4)  
 c) Distinguish between a limited liability business and an unlimited liability business. (2)  
 d) The directors of the company paid an interim ordinary dividend of 20 cents (€0.20) per share. The retained earnings balance on **1 April 2016** was €360,000.  
 i) Calculate the total dividend paid to the ordinary shareholders. (2)  
 ii) Calculate the net profit earned by the company during the year ended 31 March 2017. (4)  
 e) Martin had invested €20,000 in this company upon the issue of shares at par.  
 i) Calculate the amount of dividend that he has earned this year. (2)  
 ii) Explain to Martin the significance of the current market value of €4.50 of each ordinary share. (2)

**(Total: 20 marks)**

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**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2017 SESSION**

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SUBJECT:	<b>Accounting</b>
PAPER NUMBER:	IIA
DATE:	5 <sup>th</sup> May 2017
TIME:	4:00 p.m. to 6:05 p.m.

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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. The following trial balance, which failed to agree, was extracted from the ledger accounts of Kurt Falzon on 31 March 2017:

	€	€
Property (cost and accumulated depreciation 1/04/2016)	300,000	10,000
Machinery (cost and accumulated depreciation 1/04/2016)	50,000	20,000
Equipment (cost and accumulated depreciation 1/04/2016)	40,000	8,000
Inventory (1/04/2016)	37,000	
Purchases & sales	230,000	397,000
Wages & salaries	42,000	
Maintenance	6,000	
Interest on loan	1,250	
Water & electricity	9,450	
Insurance	5,650	
Discounts	3,900	4,100
Printing & stationery	7,100	
Communication expenses	8,250	
Rent	9,000	
Returns	3,000	1,000
Trade receivables and payables	39,000	21,000
Allowance for doubtful debts (1/04/2016)		4,600
Cash & bank	500	12,800
Commission received		1,700
5% Loan		50,000
Capital		280,000
Drawings	18,000	
Suspense	100	
	810,200	810,200

***This question continues on next page.***

At the end of the financial year the following information has been provided by Kurt:

- i) A sales invoice of €500 had not been posted to the sales account. Discounts allowed of €300 had been posted incorrectly in the discount received column in the cash book.
- ii) Improvements to machinery costing €5,000 have been recorded as maintenance expenditure.
- iii) Closing inventory had a value of €31,500.
- iv) The interest on loan is payable every six months. The payment for the six months ending 31 March 2017 is still due.
- v) The business rents a warehouse for €900 monthly.
- vi) An agreement with the suppliers had been made where a commission of 1% of net purchases is receivable every year.
- vii) The insurance payments include an annual payment of €1,600 for the year ending 30 June 2017.
- viii) The allowance for doubtful debts at 1 April 2016 was for a specific customer who has been declared bankrupt during this year. No accounting entries have been made.
- ix) A general allowance of 5% of trade receivables at year end is to be maintained.
- x) The business provides a full year depreciation on the assets held at the end of the year as follows:

Property	2% straight line method
Machinery	20% reducing balance method
Equipment	10% straight line method

**Required:**

- a) The suspense account. (3)
- b) The statement of profit or loss for the year ended 31 March 2017. (15)
- c) The statement of financial position as at 31 March 2017. (12)

**(Total: 30 marks)**

2. On 1 April 2016 the Rowing & Surfing Club had the following balances in its books:

	<b>Cost</b>	<b>Depreciation</b>
	€	€
Boats	<u>460,000</u>	?
Accrued subscriptions	1,800	
Prepaid subscriptions	600	

It is the club's policy to depreciate boats at 20% per annum applying the straight line method and charging depreciation for each proportion of a year.

The following is the list of boats owned by the club and the date of acquisition:

	<b>Date of Purchase</b>	<b>Cost</b>
Canoes	1 April 2013	€100,000
Paddle boats	1 July 2014	€60,000
Sailboats	1 July 2014	€300,000

The following information is also available:

- 1 July 2016 One of the paddle boats costing €20,000 was sold for €6,000. It was replaced by a new paddle boat costing €15,000.
- 31 March 2017 The club's register shows that at the end of the year the club had 320 members and the annual fee remained unchanged from last year at €300. The subscriptions due at the beginning of the year were collected.  
On 31 March 2017, 9 members had not paid this year's subscription and 2 members had paid the subscription in advance for 2018.

**Required:**

Show the following accounts as they would appear in the books of the club for the year ended 31 March 2017:

- a) Boats account. (4)
- b) Allowance for depreciation- boats account. (13)
- c) Disposal of boats account. (5)
- d) Subscriptions account (8)

**(Total: 30 marks)**

*Please turn the page.*

**SECTION B:**

Answer any TWO questions. This Section carries 40 marks.

3. Sarah is a sole trader whose financial year ends on 31 March each year.

The following balances appeared in her books but she is aware that some information is missing:

	<b>1 April 2016</b>	<b>31 March 2017</b>
	€	€
Trade receivables	29,000	32,000
Trade payables	18,000	27,000
Inventories	25,000	31,000

During the year ended on 31 March 2017 the following transactions took place:

	€
Receipts from trade receivables	360,000
Discounts allowed	4,500
Sales returns	2,300
Dishonoured cheques	1,500
Cash refunds to trade receivables	800
Payments to trade payables	240,480
Refunds for cash purchases	200
Discounts received	2,700
Purchases returns	1,750
Irrecoverable debts	700
Amounts set off between trade receivable and trade payable accounts	1,000

**Additional Information:**

- i) The business sales are mainly on credit. However, Sarah has a few customers who pay immediately in cash. The total cash sales for the year were €6,500.
- ii) Payments to trade payables include €2,500 cash purchases.

**Required:**

- a) A trade receivables control account (sales ledger control account). (8)
- b) A trade payables control account (purchases ledger control account). (5)
- c) An extract of the statement of profit or loss for the year ended 31 March 2017 showing the calculation of gross profit (trading account). (7)

**(Total: 20 marks)**

4. Fresh & Freeze Ltd owns two large shops, one in Birkirkara and one in Mosta. The following figures were taken from the books of the company on 31 December 2016, the end of its financial year.

	€
Non-current assets	250,000
Inventories 1 Jan 2016	
Birkirkara	80,000
Mosta	55,000
Printing & stationery	16,000
Purchases	1,680,000
Sales	2,352,000
Office salaries	42,000
Prepaid insurance 1 Jan 2016	600
Insurance payments	6,400
Maintenance expenses	30,000
Wages	180,000
Rent	60,000
Administrative expenses	34,000
Selling & distribution costs	120,000
Cleaning expenses	40,000

**Additional Information:**

- i) The inventories on 31 December 2016 at the Birkirkara and Mosta shops were €95,000 and €60,000 respectively.
- ii) The sales of Birkirkara's shop were twice those of the Mosta shop. Purchases are apportioned by the sales ratio.
- iii) Annual depreciation of non-current assets is charged at 10% on cost.
- iv) The insurance payments include an annual payment of €900 for the year ended 30 April 2017.
- v) The floor area of the Birkirkara shop is three times the size of the Mosta shop.
- vi) Selling & distribution costs, maintenance expenses and wages are apportioned between the two shops by the sales ratio.
- vii) Insurance, rent, cleaning and depreciation are apportioned using the floor area ratio of the two shops.
- viii) Office salaries, administrative expenses and printing & stationery expenses are shared equally between the two shops.

**Required:**

A columnar statement of profit or loss for the year ended 31 December 2016, showing the gross profit and the net profit earned by each shop. (The total column is not required).

**(Total: 20 marks)**

*Please turn the page.*

5. Comfort Sleep Ltd produces a single model of standard type sofa bed. The following figures were obtained from the books for the year ended on 31 December 2016.

	€
Production wages	850,000
Indirect materials	50,000
Opening inventory of raw materials	120,000
Opening inventory of work in progress	25,000
Depreciation of factory machines	80,000
Power	136,000
Factory insurance	44,000
Purchases of raw materials	1,440,000
Machine maintenance	70,000
Direct expenses	18,000
Supervisors' wages	180,000
Transport of raw materials	24,000
Machine insurance	36,000
Factory rent	30,000
Factory cleaning	12,000
Closing inventory of raw materials	135,000
Closing inventory of work in progress	20,000
Sales	?
Closing inventory of finished goods	?

**Additional Information:**

During the year 14,800 sofa beds were produced and 14,700 were sold for €450 each. On 1 January 2016 Comfort Sleep Ltd did not have any finished sofa beds in inventory.

**Required:**

- a) A manufacturing account for the year ended 31 December 2016. (15)
- b) An extract of the statement of profit or loss for the year ended 31 December 2016 showing the calculation of gross profit (trading account). (5)

**(Total: 20 marks)**

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UNIVERSITY OF MALTA, MSIDA

**SECONDARY EDUCATION CERTIFICATE LEVEL**

**MAY 2017 SESSION**

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SUBJECT:	<b>Accounting</b>
PAPER NUMBER:	IIB
DATE:	5 <sup>th</sup> May 2017
TIME:	4:00 p.m. to 6:05 p.m.

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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 following trial balance was extracted from the ledger accounts of Emma Sant on 31 March 2017:

	€	€
Property (cost and accumulated depreciation 1/04/2016)	300,000	10,000
Machinery (cost and accumulated depreciation 1/04/2016)	60,000	20,000
Equipment (cost and accumulated depreciation 1/04/2016)	40,000	8,000
Inventory (1/04/2016)	37,000	
Purchases & sales	230,000	397,000
Wages & salaries	42,000	
Maintenance	6,000	
Interest on loan	2,500	
Water & electricity	9,450	
Insurance	5,650	
Discounts	3,900	4,100
Communication expenses	8,250	
Returns	3,000	1,000
Trade receivables and payables	46,100	29,200
Allowance for doubtful debts (1/04/2016)		4,600
Cash & bank	500	12,800
Commission received		1,650
5% Loan		50,000
Capital		280,000
Drawings	24,000	
	818,350	818,350

At the end of the financial year the following information has been provided by Emma:

- i) Closing inventory had a value of €31,500.
- ii) Wages and salaries of €1,500 were owing at the end of the financial year.
- iii) The insurance payments include €400 for the quarter ending 30 June 2017.
- iv) The allowance for doubtful debts was increased to €5,000 at 31 March 2017.

***This question continues on next page.***

- v) The business provides a full year depreciation on the assets held at the end of the year as follows:

Property	2% straight line method
Machinery	20% reducing balance method
Equipment	10% straight line method

### Required

- a) The statement of profit or loss for the year ended 31 March 2017. (12)  
 b) The statement of financial position as at 31 March 2017. (8)

**(Total: 20 marks)**

2. On 1 April 2016 the Cycling Club had the following balances in its books:

	<b>Cost</b>	<b>Depreciation</b>
	€	€
Cycling equipment	<u>80,000</u>	?
Accrued subscriptions	1,100	
Prepaid subscriptions	700	
Rent paid in advance	500	

It is the club's policy to depreciate cycling equipment at 20% per annum applying the straight line method and charging a full year depreciation on the equipment held in the club at the end of the year.

All cycling equipment had been bought on 1 April 2014 upon the opening of the club.

During the year ended 31 March 2017 the following transactions took place:

1 Apr 2016      Equipment bought for €20,000 was sold for €9,000.

1 July 2016      The purchase of new equipment costing €25,000.

### Additional information:

- i) Rent is €500 monthly and has remained the same as last year. The club paid €5,000 for rent between 1 April 2016 and 31 March 2017.  
 ii) The receipts and payments account shows a total receipts of €14,800 subscriptions which include €200 received in advance for the year ending 31 March 2018.  
 iii) Members' subscriptions still unpaid on 31 March 2017 were €900.

### Required

- a) The cycling equipment allowance for depreciation account. (6)  
 b) The disposal of equipment account. (4)  
 c) The subscriptions account. (6)  
 d) The rent account. (4)

**(Total: 20 marks)**

**SECTION B:**

**Answer ANY FOUR questions from this Section. This Section carries 60 marks.**

3. Nicolette is a sole trader whose financial year ends on 31 March each year.

The following balances appeared in her books:

	<b>1 April 2016</b>	<b>31 March 2017</b>
	€	€
Trade receivables	29,000	?
Trade payables	18,000	?

During the year ended on 31 March 2017 the following transactions took place:

	€
Receipts from trade receivables	360,000
Credit sales	368,200
Discounts allowed	4,500
Sales returns	2,300
Dishonoured cheques	1,500
Payments to trade payables	240,480
Credit purchases	246,500
Discounts received	2,700
Purchases returns	1,750
Irrecoverable debts	5,700
Amounts set off between trade receivable and trade payable accounts	2,000

**Required**

- a) A trade receivables control account (sales ledger control account). (8)
- b) A trade payables control account (purchases ledger control account). (7)
- (Total: 15 marks)**

4. Terrence is an inexperienced junior accountant. He has drawn up a trial balance but it failed to agree. On further examination he finds the following:
- The discount allowed column in the cash book had an overcast of €90.
  - Cash sales of €400 had been posted only in the cash book.
  - A purchase of a motor vehicle for €15,000 for personal use had been posted as an asset of the business.
  - Irrecoverable debts of €1,700 had been correctly posted in the general ledger but no other entry had been made.
  - Payments for wages €2,360 had been entered in the wages account as €2,630.

**Required**

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

5. The following information relates to the partnership of Martina and Nora:

- i) Martina and Nora had agreed to share profits and losses 3:1 respectively.
- ii) Interest on capital is agreed at 5% per annum.
- iii) The net profit for the year ended 31 March 2017 was €82,500.

	<b>Martina</b>	<b>Nora</b>
	€	€
Capital 1 April 2016	100,000	30,000
Drawings during the year ended 31 March 2017	26,000	35,000
Salary per month	1,500	2,500
Current account balances: 1 April 2016	5,400Cr	3,100Dr

### Required

- a) An appropriation account for the year ended 31 March 2017. (7)
- b) The partners' current accounts. (8)

**(Total: 15 marks)**

6. Work & Play Ltd owns two tool shops, one in Msida and one in Paola. The following figures were taken from the books of the company on 31 December 2016, the end of its financial year.

	€
Non-current assets	300,000
Inventories 1 Jan 2016	
Msida	70,000
Paola	50,000
Printing & stationery	8,000
Purchases	
Msida	560,000
Paola	395,000
Sales	
Msida	700,000
Paola	500,000
Insurance payments	6,000
Maintenance expenses	3,000
Wages	48,000
Rent	20,000
Administrative expenses	11,000
Selling & distribution costs	30,000
Cleaning expenses	16,000

### Additional Information:

- i) The inventories on 31 December 2016 at the Msida and Paola shops were €68,000 and €53,000 respectively.
- ii) Annual depreciation of non-current assets is charged at 10% on cost.

- iii) The floor area of the Msida shop is three times the size of the Paola shop. Insurance, rent, cleaning and depreciation are apportioned using the floor area ratio of the two shops.
- iv) Selling & distribution costs, maintenance expenses and wages are apportioned between the two shops by the sales ratio.
- v) Administrative expenses and printing & stationery expenses are shared equally between the two shops.

**Required**

A columnar statement of profit or loss for the year ended 31 December 2016, showing the gross profit and the net profit earned by each shop. (The total column is not required).

**(Total: 15 marks)**

7. Young & Casual Ltd produces jeans for a chain outlet. The following figures were obtained from their books for the year ended 31 December 2016.

	€
Opening inventory of raw materials	120,000
Opening inventory of work in progress	45,000
Closing inventory of raw materials	115,000
Closing inventory of work in progress	48,000
Production wages	955,000
Indirect materials	12,500
Indirect wages	62,500
Purchases of raw materials	1,245,000
Carriage inwards	27,300
Depreciation of factory machines	36,000
Power	21,400
Factory insurance	24,000
Machine maintenance	17,000
Royalties	10,900
Machine insurance	36,000
Factory rent	30,000

**Required**

A manufacturing account for the year ended 31 December 2016.

**(Total: 15 marks)**