

UNIVERSITY OF MALTA

**SECONDARY EDUCATION CERTIFICATE
SEC**

ACCOUNTING

May 2011

**Marking Scheme
Paper I**

**MATRICULATION AND SECONDARY EDUCATION
CERTIFICATE EXAMINATIONS BOARD**

PAPER I

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 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.

Answer : C

2. Joanna owes you €600 but cannot pay cash. She offers you new office equipment in payment, which you accept. The journal entries should be
- | <i>Debit</i> | <i>Credit</i> |
|-----------------------------|---------------------------|
| a) Cash account | Joanna's account |
| b) Joanna's account | Office equipment account |
| c) Office equipment account | Joanna's account |
| d) Bank account | Office equipment account. |

Answer : C

3. The information for the control accounts is obtained from the
- Ledger
 - Books of original entry
 - Bank statements
 - Documents.

Answer: B

4. A club's loss is often referred to as
- A balance
 - A deficit
 - A surplus
 - Accumulated fund.

Answer: B

5. A club has 100 members and the subscription is €2 per year. All have paid the right amount except three members who paid €4 each because they still had to pay the fee of last year, and one member who also paid the fee for next year. The income from subscriptions for the year in the income and expenditure account should be

- a) €192
- b) €200
- c) €206
- d) €208.

Answer: B

6. The rate of turnover of stock is the
- a) Total value of turnover
 - b) Average stock divided by the cost of sales
 - c) Number of times the average stock is sold
 - d) Average of the opening and closing stock.

Answer: C

7. During a year a business sells €50,000 and expenses are 20% of the gross profit. If 25% is added to the cost price of goods to obtain the selling price, the net profit is
- a) €2,500
 - b) €5,500
 - c) €8,000
 - d) €10,000.

Answer: C

8. Cash discount allowed to May Ltd, €50, was entered correctly in the personal account but was credited to the discount received account by mistake. The correct journal entries are

<i>Debit</i>	€	<i>Credit</i>	€
a) Discount allowed account	100	Suspense account	100
b) Discount received account	50	Discount allowed account	50
c) Discount allowed account	50	Discount received account	50
d) Discount allowed account <i>and</i> discount received account	50 50	Suspense account	100

Answer: D

9. An alternative expression for indirect expenses is
- a) Prime cost
 - b) Production cost
 - c) Work in progress
 - d) Overheads.

Answer: D

10. The issued capital of a company is €50,000 made up of shares of 50c each. If the directors paid an interim ordinary dividend of 5c per share, the total dividends paid that year would amount to
- a) €25,000
 - b) €5,000
 - c) €2,500
 - d) €10,000.

Answer: B

11. a) What is a partnership profit and loss appropriation account?

A partnership would have an extra section shown under the profit and loss account called the profit and loss appropriation account and which shows the distribution of profits, interest on drawings, interest on capitals and salaries of partners.

(2 marks)

- b) Distinguish between capital and current accounts in the books of a partnership.

The capital account reflects the investment of each partner and remains year by year at the figure of capital put into the firm by the partners.

(2 marks)

The profits, interest on capital and the salaries to which the partner may be entitled are credited to a separate current account for the partner and the drawings and the interest on drawings are debited to it. The balance of the current account at the end of the financial year will then represent the amount of undrawn profits. The current account is a current capital account.

(2 marks)

- c) List **one** reason for a debit balance in a partner's current account.

Any ONE of:

A debit balance will be the result of drawings in excess of the profits to which the partner may be entitled; or

Losses have been made.

(2 marks)

- d) What is meant by the nominal value of a share and share premium?

The nominal value of a share is the "face" value of the share e.g share can be of €1 each. This could be different from the market value or real value.

(1 mark)

Share premium is used whenever shares are issued at a price higher than their normal value e.g. €1 ordinary shares issued at €1.50, the amount of excess of the nominal value (i.e. 50 cents per share) is credited to a share premium account.

(1 mark)

e) Donald is one of three partners in a business. The partnership agreement includes the following:

- i. Donald is entitled to an annual salary of €15,000.
- ii. Interest on capital is to be at the rate of 5% annually.
- iii. Any remaining profits and losses are shared equally between the partners.

		€
1 April 2010	Capital account balance	50,000
	Current account balance(Dr)	500
1 October 2010	Capital introduced	10,000
31 March 2011	Drawings for the year	16,500
31 March 2011	Donald's total earnings for the year	28,750

Required

Donald's capital and current accounts.

Capital Account			
	Bal c/d	60,000	
		50,000	1
		10,000	1
	60,000	60,000	

Current Account			
	Bal b/d	500	
1		15,000	1
1	Drawings	16,500	2
1	Bal c/d	11,750	2
	28,750	28,750	

12. a) Distinguish between bad debts and allowances for doubtful debts.

Bad debts are clients who never pay for goods sold to them on credit. Trade receivable accounts are written off.

(1 mark)

Also known as Provision for Bad Debts and this account is used only for estimates of the amount of the debtors at the year-end that are likely to finish up as bad debts.

(1 mark)

b) Name and explain **two** accounting concepts that are applied in the accounting for allowances for doubtful debts.

Prudence concept – the accountant should always be on the side of safety and this is known as prudence. The prudence concept means that normally one will take the figure which will understate rather than overstate the profit.

(2 marks)

Accruals concept - net profit is the difference between the income and expenses for the financial period. Hence, the entry in the income statement represents the increase or decrease in the allowance for the year.

(2 marks)

- c) Define depreciation and explain its purpose.

Depreciation is the part of the original cost of the fixed asset consumed during its period of use by the firm. Physical deterioration – wear and tear, erosion, rust, rot and decay, obsolescence, inadequacy, time and depletion are possible causes of depreciation.

(1 mark)

Purpose:

Allocate the cost of a non-current asset, less its estimated residual value over its economic useful life.

(1 mark)

- d) Name **three** methods of depreciation and explain how the choice of method is made.

Straight line method - fixed installment method. It is used for those fixed assets that are expected to generate equal economic benefits over their useful life.

Reducing balance method – it is used for those fixed assets that are expected to generate higher returns in their early years.

Revaluation method – it is suitable for small, low value fixed assets.

Accept any of the methods listed below.

Depletion unit method = cost of fixed assets/expected total contents in units
Multiplied by number of units taken in period

Units of output method

Machine hour method

(3 marks)

- e) The statement of financial position of Smartfit Ltd at 31 December 2009 included the following:

	<i>Cost</i>	<i>Depreciation</i>
	€	€
Equipment	52,000	20,000

During the year ended 31 December 2010 the following non-current asset transactions took place:

1 April 2010 Old equipment bought on 1 July 2007 for €8,000 was sold for €3,000.

1 July 2010 The purchase of a new equipment costing €20,000.

It is the policy of the company to provide a whole year's depreciation at the rate of 20% per annum using the straight line method applied to the equipment held at the end of the financial year.

Required

i. The equipment account.

Equipment Account					
½	Bal b/d	52,000	Disposal	8,000	1
1	Bank	20,000	Bal c/d	64,000	½
		72,000		72,000	

ii.

Allowance for depreciation account.

Accumulated Depreciation Account					
1	Disposal	4,800	Bal b/d	20,000	½
½	Bal c/d	28,000	P & L	12,800	1
		32,800		32,800	

iii. The asset disposal account.

Disposal Account					
½	Equipment	8,000	Depreciation	4,800	½
			Bank	3,000	1
			P & L	200	1
		8,000		8,000	

13. a) What is the purpose of the books of original entry?

These are books in which the first record for transactions are made. Their purpose is to provide book-keeping with a system of control. Control accounts are prepared from these books.

(2 marks)

b) Distinguish between a sales ledger and a sales ledger control account.

Sales ledger – this is kept just for customers' personal accounts- Accounts of debtors

(1 mark)

Sales ledger control account – applies to the complete sales ledger and it is used to locate errors and control fraud.

(1 mark)

- c) Suggest **one** reason for a debit balance in a purchases ledger account.

Accept any ONE of:

Advance payment by a creditor

Returns of goods after the account had been settled

Overpayment.

(1 mark)

- d) Explain the following terms:

- Dishonoured cheque – funds not held in drawer's account. Cheque is returned by the bank.
- Set-off - debtor's balance set-off against amount due by the business.
- Trade discounts – discount offered to traders who buy a lot of goods from the business.
- Cash discounts - amount of reduction of the sum to be paid if settlement is made within a certain period of time.

(1 mark each)

- e) Martina set up a business on 1 January 2009. The following information is available:

	2009	2010
	€	€
Credit sales for the year	400,000	450,000
Cash sales for the year	8,000	10,000
Bad debts written off during the year	4,000	2,000
Receipts from debtors during the year	376,000	428,000

Martina felt that a specific allowance for doubtful debts of €2,500 was required in 2009 and in 2010 the allowance was adjusted to represent 2% of the trade accounts receivable balances outstanding at the end of the year.

Required

- a) A sales ledger control account for 2010 **only**.

Sales Ledger Control Account					
2	Bal b/d	20,000	Bad debts	2,000	1
2	Sales	450,000	Receipts	428,000	1
			Bal c/d	40,000	1
		<u>470,000</u>		<u>470,000</u>	

- b) An allowance for doubtful debts account for 2010 **only**.

Allowance for doubtful debts Account			
1	P & L	1,700	Bal b/d
1	Bal c/d	800	2,500
		2,500	2,500

14. a) Distinguish between the allocation and the apportionment of costs. Illustrate each with an example.

Allocation of expenses is that each expense is allocated to the relevant department. When expense is made specifically for a department it is allocated to that department. e.g. Wages are allocated to the department where staff is engaged.

(Accept any correct example).

(2 marks)

Apportionment is where an expense is divided between the departments on what is considered to be the most logical basis. Expenses made for the business in general are apportioned to the departments on the most equitable basis. e.g. apportion rent together with air conditioning and lighting in accordance with the floor space, occupied by each department

(2 marks)

- b) Why are departments allowed to run at a loss?

Accept any **ONE** of:

Some stores deliberately allow parts of their business to lose money so that customers come to the store to buy the cheap goods and then spend money in the other departments; or

A department may be providing a contribution but once it absorbs fixed costs it makes a loss. However, fixed costs are not relevant to decision making since closing the department would not save any of the fixed costs for the business.

(2 marks)

- c) Why are accounting ratios useful?

Any **TWO** of the following:

- Using ratios can be useful to compare the trends to see if the ratios are getting better or worse as each period passes.
- They are essential for proper control.
- Ratios can be used to compare results to those of similar businesses.
- They give indication on liquidity, profitability and gearing and prompt action needs to be taken where the trend in a ratio is deteriorating.

(2 marks)

- d) What is a bank reconciliation statement?

A bank reconciliation statement should show whether or not errors have been

made either in the bank columns of the cash book or on the bank statement. It helps to reconcile cash book balances with bank statement balances.

(2 marks)

- e) On 31 March 2011 the bank balance in the cash book of Mora Bruna shows a debit balance of €1,255. On examining the bank statement she notices the following:
- i. Bank charges of €170 are not recorded in the cash book.
 - ii. A direct debit of €485 for the payment of communication expenses had not been included in the cash book.
 - iii. Deposits into the bank of €2,110 were not yet recorded in the bank statement.
 - iv. A receipt from a debtor of €540 was only recorded in the bank statement.
 - v. Cheques paid to suppliers €1,260 had not been presented to the bank for payment.

Required

- (a) An up-dated cash book.

Up-dated bank Account			
1	Bal b/d	1,255	Bank charges
			170
1	Debtor	540	Communication expenses
			485
			Bal c/d
		1,795	1,140
			1,795

- (b) A bank reconciliation statement at 31 March 2011 showing the balance in the bank statement.

Bank reconciliation statement at 31 March 2011

	€	
Balance as per up-dated cash book	1,140	½
add unpresented cheques	1,260	2
less deposits not in bank statement	(2,110)	2
Balance as per bank statement	290	½