

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA
MATRICULATION EXAMINATION
ADVANCED LEVEL
MAY 2013

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	26 th April 2013
TIME:	9.00 a.m. to 12.00 noon

Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

Section A: Answer ONE question from this Section. Each question carries 28 marks.**Question 1**

The following are the balances extracted from the books of **The Sisal Rope plc** on 31 December 2012.

	€	€
400,000 Ordinary shares of €0.50 each		200,000
Retained earnings		12,500
Purchases of raw material	185,000	
Sales		485,000
Returns in/out	5,400	8,700
Sales/Purchases ledgers balances	56,100	16,400
Wages and salaries of factory workers	84,440	
Rent	18,000	
Carriage in	5,200	
Carriage out	8,600	
Electricity: Power	26,500	
Lighting & heating	12,300	
Insurance	7,800	
Machinery and plant/Accumulated Depreciation	96,000	18,400
Furniture and fixtures/Accumulated Depreciation	48,000	13,000
Vehicles/Accumulated Depreciation	64,000	22,000
Inventories: Raw materials	24,800	
Work-in-progress	11,200	
Finished goods	17,250	
Provision for unrealised profits		2,250
Office expenses	19,760	
Advertising	11,300	
Directors' salaries	30,200	
Factory supervisors' wages	18,360	
Sales force expenses	24,480	
Royalties	8,360	
Cash/Bank Overdraft	7,180	11,980
	790,230	790,230

Other information:

1. Inventories at 31 December 2012 consisted of:

	€
Raw materials	38,450
Work-in-progress	18,920
Finished Goods	25,300

2. It is company policy to value finished goods at transfer prices adding 15% to manufacturing cost.

3. Depreciation is provided for as follows:

Machinery and plant	12.5% on cost
Furniture and fixtures	10% on cost
Vehicles	30% on net book value

4. An allowance of 2% in respect of trade receivables was deemed necessary at the year-end.

5. The directors decided to transfer €10,000 to a General reserve.

6. Supervisors' wages are one week in arrears. Only 51 weeks' wages have been paid for the whole year. It can be assumed that supervisors' wages accrue evenly throughout the year.

7. Office expenses amounting to €5,340, and a lighting and heating bill of €2,200 were still outstanding at year end.

8. Advertising amounting to €3,800 was prepaid.

9. The following expenses are to be apportioned as follows:

	<i>Factory(%)</i>	<i>Administration(%)</i>	<i>Selling(%)</i>
Lighting & heating and rent	40	30	30
Vehicles depreciation	10	30	60
Office expenses	10	70	20
Insurance	60	10	30

Required:

- a. Prepare the Statement of Comprehensive Income for the year ended 31 December 2012 and a Statement of Financial Position as at that date. **(22 marks)**
- b. Explain the term “Prime Cost of Production” and state how these differ from other production costs. **(6 marks)**

Question 2

The officials of the **White Sticks Club** have appointed you as their treasurer, provided you with the following information and asked you to prepare the financial statements of the club for the year ended 31 March 2013.

As at 31 March 2012, the club had the following assets and liabilities.

	€
Club house	40,000
Extension to Club house	10,000
Fixtures	24,000
Equipment	12,000
Bar inventory	1,200
Amounts due: Barmen wages	700
Bar suppliers	650
Cash in hand	2,200

As at 31 March 2012, the annual subscription fees of €100 due from 12 members for 2011/12 were received after the financial year end while 4 members had already paid for their 2012/13 fee.

You were informed that a life membership scheme had been introduced in December 2010 where 5 club officials paid a one-time fee of €500. This scheme attracted another 10 retired players who joined on 1 April 2011. Although the intention had been to recognise the amounts received as income over a 10 year period, the previous treasurer had simply recognised these as receipts in the Cash Book.

The club management have agreed that:

- (i) a Life Membership Fund is to be created to reflect all transactions since it was first introduced two years ago;
- (ii) a first time entrance fee of €75 is to be paid by new members as from 1 April 2012 to cover use of kits over three years;
- (iii) as from 1 April 2012, the annual subscription fee has been increased to €120 while the fee for life membership would be €600 for new members joining the scheme after this date.

For the year ended 31 March 2013, the following were recorded in the membership register:

- (i) 200 existing members renewed and paid their annual subscription for 2013. This includes the 4 members who prepaid their 2013 subscription who were not asked to pay for the increase in the annual subscription.
- (ii) 20 new members were admitted and have paid for both the annual subscription and the new entrance fee.
- (iii) 4 retired players and 3 club officials applied for and were granted Life membership.
- (iv) 10 members had not paid the year's subscription by 31 March 2013 but informed the club that they intend to settle the amount they owe before the end of April 2013.
- (v) 5 members chose to pay the 2014 fee in advance.

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During the year the following transactions were recorded:

- (i) Bar receipts amounted to €21,200.
- (ii) The Annual Bar-b-que generated receipts of €3,700, the trophies awarded at this annual event cost €850.
- (iii) Rent of pitches, maintenance and other game related expenses amounted to €18,200.
- (iv) Administration costs were €1,330
- (v) Payments to suppliers to replenish the bar amounted to €15,400.
- (vi) Other payments consisted of barmen wages €4,500; repairs to equipment €2,700.
- (vii) Booking fee of €2,000 to participate in the national tournament to be held in April 2013.

You also ascertain that:

- (i) Bar inventory on 31 March 2013 is valued at €800.
- (ii) Premises are depreciated at 2% and Fixtures and Equipment at 10% using the reducing balance method.
- (iii) Amounts due but not yet paid as at 31 March 2013 comprised Wages €560 and bar suppliers €780.

Required:

- a. A Statement of Affairs for the White Stick Club as at 1 April 2012. **(4 marks)**
- b. The Receipts and Payments and the Income and Expenditure Account for the year ended 31 March 2013 and a Statement of Financial Position as at that date. **(18 marks)**
- c. Discuss the accounting treatment for Life Membership and explain how this differs from that applied to record annual subscriptions. **(6 marks)**

Please turn the page.

Section B: Answer THREE questions from this Section. Each question carries 24 marks.**Question 3**

The directors of **Innovative Ltd** have provided you with the following information and are seeking your advice before the annual audit starts.

1. Draft Statement of Financial Position as at 31 March 2013.

	€	€
Intangible asset	500,000	
Premises	1,200,000	
Capitalised costs	200,000	
Machinery	<u>720,000</u>	2,620,000
Inventories	326,700	
Accounts receivable	525,000	
Accounts payable	(605,200)	
Bank overdraft	<u>(135,000)</u>	111,500
		<u>2,731,500</u>
Ordinary Share Capital		1,800,000
Capital Reserve		500,000
Revaluation Surplus		40,000
Retained Earnings b/f		341,800
Draft Profit for the year		<u>49,700</u>
		<u>2,731,500</u>

- An independent valuation was obtained to estimate the additional value that would be received if the entire business was sold to an interested party. The directors have recognised this as an intangible asset with the unrealised gain being recognised as a capital reserve.
- The company applies the Revaluation model allowed by IAS 16 and measures its property at fair value. The last revaluation exercise was carried out 6 years ago. The directors are aware that if they had to dispose of the property today they would lose €50,000. However, they have absolutely no intention of selling the property and have accordingly not recognised this potential loss. During the year, there were no acquisitions or disposals of non-current assets.
- During the year the premises were extended to include a new showroom and the work was carried out by the company's employees. The expenditure capitalised includes €3,000 spent to advertise the opening of the new showroom.
- As the overdraft was in excess of the limit allowed by the bank, the directors agreed to postpone the payment of €18,000 due to them as annual bonus. This expense will be charged next year when the directors expect the overdraft balance to be brought back within limit.
- The value of inventory held at the end of the year includes items carried at their original cost of €12,500. The packaging was damaged by some flooding and new packing to make them saleable would cost €2,500. The directors decided to account for this cost when it is actually incurred.
- Goods costing €20,000 were sold to a credit customer on a returns basis on 9 March 2013 and were recognised as revenue and therefore not included with closing inventory. A full refund will be given

if the goods are returned within 6 months. The company applies an average mark up of 25% on goods sold.

8. In the past few months, credit control has been tightened and as such the directors no longer saw the need for the allowances held on doubtful debts and these were reversed to profits. Past trends show that bad debts incurred approximate 2% of accounts receivable.

Required:

- a. Journal entries necessary to adjust the draft financial position explaining why these adjustments are required and a Statement of Adjusted Profit. **(13 marks)**
- b. A revised Statement of Financial Position as at 31 March 2013. **(5 marks)**
- c. Mention **two** key concepts which underlie financial reporting and briefly explain them. **(6 marks)**

Please turn the page.

Question 4

Gianni Bartolo has been in the jewellery business, running a retail outlet, for the past number of years. On April 23 his shop was broken into and most of his stock of goods was burgled. Other goods were damaged in an apparent attempt to prise them off from cabinets and shelvings.

Bartolo has been asked to make an insurance claim and asks you to evaluate the value of stock stolen or damaged. From his books of accounts you manage to establish the following:

1. All goods are sold at a uniform profit mark-up of 33.33% but €14,700 of total sales were sold during a promotion week at a mark-up of 5%. All goods sold during the promotion week were collected by the customers, and there were no returns of these goods.
2. At the start of the financial year opening inventory amounted to €42,500. You discover that sales of €1,200 had been sold during the last days of the previous year but had not been collected by the customers. These were omitted from opening inventories calculations.
3. Suppliers invoices during the period up to the burglary amounted to €204,000, but €1,560 of these were still to be delivered. Returns out for the period were €19,800.
4. Goods selling at €6,500 had been distributed to a number of small village outlets on a sale-or-return basis.
5. Out of the invoiced sales which amounted to €248,000, goods in respect of a sale for €860 were still in the shop ready to be picked up by the customers. Up to the night of the burglary returns-in daybook totalled €12,800.
6. Before the burglary, Bartolo had taken a necklace priced to be sold at €8,400 which he gave to his wife as a gift.
7. The burglars did not manage to cart away goods which had cost €22,400. Nevertheless some of these, which had cost €5,600 had been damaged and now their value decreased to €2,000.

Required:

- a. Calculate the cost of goods stolen and the amount claimed from Bartolo's insurers. **(18 marks)**
- b. Describe **two** different methods of valuing inventories when goods are purchased at different prices during a specific period. **(6 marks)**

Question 5

The recent economic crisis has taken its toll on **Ffs Ltd** and as both its performance and liquidity have declined over the last few years it is now losing customers.

The directors have approached their bank seeking an increase in their overdraft facilities and a possible reduction of the current interest rate of 7%. Their bankers have asked for the financial plans the company is preparing for the coming year to assess their request.

Ffs Ltd - Budget Statement of Financial Position as at 31 March 2014

Non-current assets	€	€
		598,000
Current assets		
Inventories	171,700	
Receivables	342,100	
Cash	2,150	
	<u>515,950</u>	
Current liabilities		
Payables	(299,000)	
Bank overdraft	(214,950)	2,000
		<u>600,000</u>
Financed by:		
		€
Ordinary share capital		240,000
Retained earnings		60,000
6% Long term loan		<u>300,000</u>
		<u>600,000</u>

Ffs Ltd - Budget Statement of Profit and Loss for year ending 31 March 2014

	€	€
Revenue		1,080,000
Opening inventory	246,300	
Purchases	789,400	
Closing inventory	<u>(171,700)</u>	
Cost of sales		<u>(864,000)</u>
Gross profit		216,000
Operating expenses		(150,600)
Finance cost - on loan	(18,000)	
- on overdraft	<u>(15,000)</u>	<u>(33,000)</u>
		<u>32,400</u>

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The directors analysed this first draft of the budget and are putting forward the following alternative suggestions aimed to improve performance and liquidity.

- i) Issue €500,000 10 year Secured Debentures with a coupon of 4.5%. Incoming cash will be utilised to pay off the long term loan and to reduce the bank overdraft.

- ii) Dispose of a warehouse with a carrying value of €362,600 for €380,000. The company depreciates its property at 2% of net book value. The sales proceeds will be applied to repay the long term loan and reduce bank borrowings.

Required:

- a. Calculate the budgeted ROCE, Net Profit margin, Current ratio and Gearing ratio. **(2 marks)**

- b. Work out the ratios mentioned in (a) above in respect of the suggestions being made, treating each suggestion separately and ignoring taxation. **(16 marks)**

- c. Comment briefly on the courses of action being suggested . **(6 marks)**

Question 6

Quaystone plc had the following non-current assets on its books at 31 March 2012:

	<u>Original Cost</u>	<u>Accumulated Depreciation</u>
	€	€
Premises	400,000	60,000
Plant & Machinery	380,000	114,000
Furniture & Fittings	98,000	32,000
Motor Vehicles	120,000	62,612

The company depreciates its non-current assets at the following rates per annum, providing a full year's depreciation in the year of acquisition but none in the year of disposal:

Premises	2% on cost on buildings (Buildings comprised €180,000 of the €400,000 original cost of premises)
Furniture & fittings	10% on original cost
Plant & Machinery	straight line method to be written off over 8 years with a residual value of 10% of their original cost
Motor vehicles	40% on net book value

During the year ending 31 March 2013 the following took place:

1. It was decided that buildings, which up to 31 March 2012 had been depreciated at 2% each year, were henceforth to be depreciated at 5% per annum.
2. Additional furniture was purchased for €42,000, while in August 2012, worn out furniture with an original cost of €28,000 and an accumulated depreciation provision of €18,400 was scrapped.
3. A machine which had cost €40,000 bought 8 years previously had reached the end of its economic useful life. Nevertheless the directors decided to retain the machine for an additional 2 years but to reduce its residual value to €1,000. The decrease in residual value was to be written off during the current year.
4. A new machine was acquired at a cost of €22,000.
5. The following vehicles were considered no longer suitable for the nature of the business of the company and were sold:

	<u>Purchase date</u>	<u>Original cost</u>	<u>Realised</u>
Van	March 2010	€18,000	€1,600
Saloon	August 2009	€25,000	€3,400

6. Another motor van bought in June 2011 for €20,000 was considered too small for requirements and exchanged for a larger lorry costing €34,000 . The van realised a trade-in allowance of €8,000.

Required:

- a. For each asset class, prepare the Asset Account, the Allowance for Depreciation and, where applicable, the Disposal Account. **(15 marks)**
- b. Prepare the schedule of Non-current assets as it would appear in the Notes to the Financial Statements for the year ended 31 March 2013. **(3 marks)**
- c. Briefly explain why entities provide for depreciation. **(6 marks)**

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Directions to Candidates

Answer **FOUR** questions, choosing **ONE** from **SECTION A** and **THREE** from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

Section A: Answer ONE question from this Section. Each question carries 28 marks.**Question 1**

A company operating a number of factories in the world has decided to open a factory in Malta, manufacturing one product of a standard type. A standard costing system was installed and the standard cost of each unit is as follows:

Materials per unit	4 kgs at €1 per kg
Labour per unit:	
Department A	4 hours at €9 per hour
Department B	1 hour at €18 per hour

Fixed production overheads are estimated at €85,500, and are absorbed in production using a pre-determined absorption rate based on labour hours. Budgeted sales and production for the month of March 2013 is 1,900 units, selling at €250 per unit.

Actual results for the month of March 2013 were as follows:

Materials	€165,220 for 7,510 kgs
Labour:	
Department A	€65,535 for 7,710 hours
Department B	€35,435 for 1,865 hours

Fixed production overheads amounted to €87,940. Actual production for the month of March 2013 was 2,100 units which were sold at 10% below the budgeted selling price.

Required:

- a. Calculate variances for:
 - i. total material cost analysed into price and usage.
 - ii. total labour cost analysed into rate and efficiency for each department.
 - iii. total fixed production overhead analysed into volume and expenditure.
 - iv. total sales analysed into price and profit volume. **(12 marks)**

- b. Prepare:
 - i. a statement showing budgeted profits and actual profits. **(6 marks)**
 - ii. a statement reconciling budgeted with actual profit. **(4 marks)**
 - iii. a short report to the company explaining why the standards set should be realistic. **(6 marks)**

Question 2

Bob Builders Ltd operates manufacturing plants. Last year the company engaged Waste Removal Ltd for a 5 year contract to handle the waste produced for an annual fee of €100,000. This fee is payable in two equal instalments at the start and the end of each year. The contract includes an early termination clause of €60,000 payable by the party ending the contract.

As this agreement still has 4 years to expire, the management of Bob Builders are considering the purchase of new equipment to convert the waste product of its manufacturing process into a marketable product. This equipment, estimated to cost €400,000, will be financed by a 4 year 10% Loan. At the end of Year 4, the equipment will be sold for scrap for €40,000. Disposal costs are estimated at €30,000.

Sales of the converted waste product are projected at €450,000 for Years 1 and 2 and at €700,000 for Years 3 and 4. The company does not offer credit arrangements to its customers and sales are strictly on a cash basis.

Estimated operating and other costs of this proposal are as follows:

	Year 1	Year 2	Year 3	Year 4
Additional material used	60,000	80,000	170,000	170,000
Labour costs	150,000	170,000	180,000	200,000
Other expenses	80,000	90,000	110,000	140,000
Factory overhead	110,000	120,000	220,000	290,000
Interest on the loan	40,000	40,000	40,000	40,000
Depreciation	90,000	90,000	90,000	90,000
	<u>530,000</u>	<u>590,000</u>	<u>810,000</u>	<u>930,000</u>

Purchase of the additional material required will be on a cash basis and €40,000 of this stock is required at the start of Year 1. The inventory level will be at €10,000 at the end of years 1, 2 and 3 and no inventory will be held at the end of Year 4. The additional material will be stored in the warehouse, utilising space that was to be rented out for €20,000 per annum in Years 2 and 3.

This additional material includes 1000 units of material Z, which costs €15 per unit. This material is expected to be in short supply up to the end of Year 3. Any available quantities can be used by the company to earn a contribution of €10 per unit. From Year 4, material Z will be available at the desired quantities.

The other expenses are directly related to the proposal and are expected to be incurred and paid in the years shown in the above table. The factory overheads allocated to the project represent the apportionment of general overheads at the current absorption rates. Actual overheads are expected to increase by €60,000 per annum due to the higher insurance premia payable to cover the risks of handling the production waste.

Cash flows arising during the year are assumed to occur at the year end and the company's cost of capital is 15%. The following discount rates apply.

Year	1	2	3	4	5
Discount Factor	0.8696	0.7561	0.6575	0.5718	0.4972

Required:

- a. Calculate the NPV of this proposal. **(22 marks)**

- b. Write a short report advising the company on the feasibility of this proposal and mention **three** advantages and **three** disadvantages when using discounted cash flow techniques for investment appraisal. **(6 marks)**

Section B: Answer THREE questions from this Section. Each question carries 24 marks.**Question 3**

Chaz Limited manufactures custom made equipment. The company received two orders: Job R from a regular customer; and Job N from a new client. The directors have provided you with the following information and requested you to calculate the selling price to be quoted for each job.

1. Both jobs require two types of material in the quantities and at the price indicated below.

	Material X	Material Y
Job R: Kg required	10,000	9,000
Job N: Kg required	11,000	8,000
Cost per kg- €	€10	€20

2. Past experience indicates that 10% of the indicated material X and Y required is expected as normal waste. This is normally disposed of at one tenth of the original cost.
3. Both jobs require skilled and unskilled labour. Details on the work force and the hours required for each job are as follows:
- | | Skilled | Unskilled |
|-----------------------|----------------|------------------|
| Number of workers | 30 | 75 |
| Rate per hour- € | €15 | €6 |
| Job R: Hours required | 3,000 | 6,500 |
| Job N: Hours required | 2,800 | 7,000 |
4. Each job is expected to take 4 weeks to complete and the normal hours available are to be allocated equally between the two jobs. The workers are employed on a 40 hour week basis and are entitled to overtime at 1.5 times their normal rate.
5. The standard variable overhead absorption rate is of €4 per labour hour, while fixed costs of €10,000 are to be allocated to each job.
6. Both jobs require finishing work which is sub-contracted as the company does not have the necessary skills. Finishing work is paid for at the rate of €2.5 per total kg of material required.
7. The company operates at a margin of 20% and regular customers benefit from a 5% discount.

Required:

- a. Calculate the price to be quoted on each job. **(18 marks)**
- b. Briefly explain the differences between job and process costing. In what type of industry would one expect to find a job costing system? **(6 marks)**

Question 4

Best Printers Limited is a printing company employing 70 employees. As part of a restructuring exercise, the company is reviewing its labour hourly costs and recovery rates.

The following information is available for the forthcoming period:

- The company employs different grades of employees, namely Grade 1, Grade 2 and Grade 3, each grade representing the level of skill of each grade. All the employees in these three grades are involved in the printing process and so their salaries are considered as a direct cost. The company also employs administration personnel who provide support services and so their salaries are considered as an indirect cost.
- The budgeted annual salaries for the forthcoming period are as follows:

Grade	No. of employees	Gross basic salary per annum
1	5	€5,000
2	15	€20,000
3	35	€12,000
Administration staff	15	€4,000

- Employees work a 40-hour week spread over 5 working days. Each employee is entitled to 24 days of leave per annum.
- Each employee is entitled to sick leave. Based on the previous period, it is estimated that the level of sick leave will be of 10 working days per employee per annum.
- A statutory annual bonus of €12 is payable to each employee per annum.
- The company has negotiated a collective agreement with its employees. The collective agreement stipulates that each grade of direct workers is entitled to a disturbance allowance as follows:

Grade	Total Disturbance Allowance per annum per employee
1	€1,850
2	€2,250
3	€660

- The company pays national insurance contribution at the rate of 10% of the gross basic salaries.
- The company incurs labour related overheads of €16,000 per annum and these are to be allocated to the salaries of the direct employees only as follows:

Grade	Allocation of Labour related overheads
1	20%
2	30%
3	50%

9. The indirect salaries of the administration staff are to be included in the recovery rates of the direct workers as follows:

Grade	Allocation of Indirect salaries
1	30%
2	40%
3	30%

Required:

- a. Calculate a total cost recovery rate for each grade of direct labour. **(14 marks)**

- b. A client has requested the company to quote for a printing job. The job will last 6 weeks and will require four Grade 3 employees and two Grade 2 employees for the whole six weeks. It will also require 20 hours of one Grade 1 employee. Calculate the total cost to undertake this job. **(4 marks)**

- c. The company is considering the introduction of a bonus system for its direct employees but has still not decided whether to introduce the system on an individual or on a group basis. Briefly explain the advantages and/or disadvantages of each system. **(6 marks)**

Please turn the page.

Question 5

JR Limited manufactures a super strong component named 'Thor'. The product passes through three processes to completion. The output of each process passes directly to the next process and finally to finished goods for resale.

The following information is available for the month of March 2013.

	Process 1	Process 2	Process 3
	€	€	€
Direct material – 21,000 units	42,000	-	-
Other materials	3,500	1,200	600
Direct labour	24,000	8,000	16,000
Other direct costs	2,920	1,350	880

The production overheads amounted to €24,000. These overheads are absorbed by each process on the basis of direct labour cost.

Loss from Process 1 is expected to be 800 units. No losses are expected from Process 2 and Process 3.

At the end of each process, the units are checked by the quality department and if these units do not pass the quality control checks, these are rejected. The units rejected from each process and the selling prices of these units are as follows:

	Process 1	Process 2	Process 3
Rejects – units	1,600	1,200	600
Selling Price of rejects – per unit	€2.00	€2.20	€2.30

There was no opening or closing stock or work in progress in any process.

Required:

- Prepare the Process Accounts for each process. **(14 marks)**
- Prepare the Abnormal Scrap Account. **(4 marks)**
- Briefly explain the difference between Normal Loss and Abnormal Loss. **(6 marks)**

Question 6

Fred Farrugia ventured out with his own business two years ago, that is, on 1 May 2011 and he wants to have a better understanding of the performance of his business. Fred does not have any financial reports and is seeking your help to prepare profit statements for the past two years. He has provided you with the following information.

<i>Financial Year ended</i>	<i>Apr-12</i>	<i>Apr-13</i>
	€	€
Selling price per unit	93.80	92.00
Costs per unit:		
Direct material	24	21.5
Direct labour	36	40
Variable overheads	12	10.5
Other annual expenses:		
Fixed factory overheads	50,000	60,000
Distribution and Admin costs	75,000	78,000
Number of Units		
Produced	10,000	12,000
Sold	6,800	11,600

Required:

- a. Prepare profit statements for the two years using:
 - i) a marginal costing approach.
 - ii) an absorption costing approach. **(14 marks)**

- b. For each year, prepare a statement reconciling the profit calculated using the two approaches. **(4 marks)**

- c. Briefly explain why the two approaches give different results. **(6 marks)**