MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2013

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	3rd September 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.

<u>Section A</u>: Answer ONE question from this Section. Each question carries 28 marks.

Question 1

The warehouse and offices of **Capstan,** a trader in the marine industry, were almost completely destroyed by fire on 8 April 2013. After the fire was put out, it was realised that not all goods in the warehouse had been destroyed and that some records, housed in the office, were still intact.

Before paying any compensation, the insurance company asked for an estimated value of the stock at the night of the fire. It also requested a set of final accounts for the 13-week period to 8 April 2013.

From records salvaged and after consulting other stakeholders including customers, suppliers and the bank, Capstan managed to collect the information given below, regarding the period 1 January 2013 to 8 April 2013:

1. Details of the Bank account as follows:

Bank A/c

Balance as at 1.1.13	5,460	Wages	8,960
Takings	119,340	Suppliers	97,460
		Electricity	5,362
		Administration	5,463
		Insurance	3,390
		Advertising	1,690
		Carriage out	1,540
		Balance as at 8.4.13	935
	124,800		124,800

2. All receipts were banked except for:
   i) Drawings of €400 per week;
   ii) Small expenses totaling €1,250; and
   iii) €50 a week for cleaning services.
3. Returns to suppliers amounted to €4,360.
4. It could be established that returns in amounted to €12,020 while bad debts were €4,310.
5. After consulting the previous year’s accounts the following balances could be ascertained:

	31 December 2012	*8 April 2013*
	€	€
Inventories	12,520	?
Premises *(at valuation)*	180,000	?
Equipment (book value)	45,120	?
Motor Vehicles (book value)	32,000	?
Trade receivables	22,300	18,750
Trade payables	31,420	29,140
Accruals *(Electricity)*	4,280	2,150
Prepaid insurance	2,260	3,850

6. Estimated depreciation for the period to the night of the fire is €1,700 on motor vehicles, €1,500 on equipment and €1,300 on premises.
7. Sales were made at a uniform profit of 50% mark-up on cost of sales.
8. Goods invoiced at €3,270 had been sold and included in sales but on 8 April 2013 were still in the warehouse awaiting delivery.
9. Goods on sale or return basis, costing €2,840, which had been delivered to a retailer in March 2013, had as yet, not been sold on the night of the fire. No entries had been made in the accounts for these goods.
10. Stock costing €2,800 was salvaged, but due to the damage incurred, it was estimated that a further €300 had to be spent to bring it to a saleable condition.

Required:

a. Calculate the amount of compensation to be claimed from the insurance company in respect of the stock damaged in the fire. **(8 marks)**
b. Prepare a Statement of Comprehensive Income for the period 1 January 2013 to 8 April 2013 and a Statement of Financial Position of Capstan as at 8 April 2013. Assume that the insurance company will meet the full claim for compensation. **(14 marks)**
c. List the sources of the Sales Ledger Control Account **<u>and</u>** describe the main purpose of preparing control accounts. **(6 marks)**

Please turn the page.

Question 2

The following financial statements were extracted from the books of **Copper plc.**

Statement of Financial Position as at:	**Jul-13**	**Jul-12**
	€	€
Non current assets:		
Property, plant and equipment	391,000	311,560
Intangible assets	122,600	67,600
	513,600	379,160
Current assets:		
Inventory	152,200	95,960
Trade receivables	115,830	116,970
Short term investments	60,500	45,000
Cash	1,220	23,910
	329,750	281,840
Total Assets	**843,350**	**661,000**
Current liabilities:		
Trade payables	101,050	128,800
Income tax	53,900	65,510
Other creditors (Plant, property and equipment)	49,400	38,000
Debenture interest accrued	2,800	-
Bank overdraft	10,350	19,390
	217,500	251,700
Non current liabilities:		
7% Debentures 2012	80,000	50,000
Equity:		
Share capital - ordinary shares of €1 each	250,000	150,000
Share premium	100,000	45,000
Revaluation reserve	70,100	55,300
Retained earnings	125,750	109,000
	545,850	359,300
Total Liabilities and Equity	**843,350**	**661,000**

Income Statement for the year ended 31 July 2013

	€	€
Revenue	624,000	
Cost of sales	(406,600)	
Gross profit		217,400
Administration and other expenses	(60,550)	
Interest expense	(7,100)	(67,650)
Profit before tax		149,750
Income tax expense		(53,000)
Profit for the year		**96,750**

1. The company opts for the revaluation method for its tangible non current assets. The company acquires plant, property and equipment on both cash and credit terms. During the year, new equipment costing €132,000 was bought on credit. This replaced old equipment which was sold for €90,000 and had a net book value of €67,000 at the date of disposal.
2. The depreciation charge for the year on property, plant and equipment amounting to €75,200 is included with Administration and other expenses.
3. Intangible assets are amortised over their useful life. New software costing €82,000 was purchased during the year.
4. The investments classified as a current asset are short term treasury bills.
5. Interest expense includes a charge of €1,500 incurred on overdrawn bank balances.
6. The new debentures were issued at the beginning of the financial year.
7. During the year the company made a 1 for 5 bonus issue by capitalising its retained earnings, followed by a rights issue.
8. An interim dividend on the ordinary shares was paid in June 2013.

Required:

a. Prepare a cash flow statement for Copper plc for the year ended 31 July 2013 using the indirect method. **(22 marks)**

b. Explain **three** differences between cash flows from operating activities and accounting profit. **(6 marks)**

Please turn the page.

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

Question 3

Clappers plc is in the process of expanding its activities and is planning to strengthen its financial position for the next accounting period. The summarised Statement of Financial Position of Clappers plc on 30 June 2013 was as follows:

	€	€
Goodwill		240,000
Freehold premises		220,000
Equipment		295,000
		755,000
Inventories	134,000	
Trade receivables	58,000	
	192,000	
Trade payables	(102,000)	
Overdraft	(82,000)	
	(184,000)	8,000
		763,000
Issued ordinary shares of €1 each		400,000
Share premium		120,000
Retained earnings		143,000
		663,000
8% Redemable preference shares of €1 each		100,000
		763,000

After consultations, Clappers plc is considering the following measures:

1. Goodwill may have to be impaired by €80,000.
2. To revalue premises according to a professional estimate to €300,000.
3. Equipment was to be written down by €50,000.
4. Make a bonus issue of 2 shares for every 5 ordinary shares in issue.
5. Follow this by a 1 in 4 rights issue at €1.20 per share.
6. Redeem/purchase the redeemable preference shares at par.
7. Issue €100,000 debentures at par.

Required:

a. Show how each of the above measures would affect the bank balance. **(4 marks)**

b. Journalise the entries that would be required to reflect the above measures. **(9 marks)**

c. Prepare a Statement of Changes in Equity after Clappers plc has implemented the above measures assuming all targets have been attained. **(5 marks)**

d. Describe **two** benefits of introducing a level of gearing in the capital structure of an enterprise. **(6 marks)**

Question 4

The accountant of **Cripton Ltd** had to resign suddenly. The managing director is your friend and as he knows that you have studied accounting he has asked for your comments on the draft budget which he has prepared and has given you the following information.

Draft Budget Statement of Financial Position as at 31 August 2014

	€	**€**
Research and development	15,000	
Property	150,000	
Equipment and fittings	87,200	
Motor vehicles	40,000	292,200
Inventories	43,900	
Trade receivables	74,700	
Cash	600	119,200
		411,400
Issued share capital (€1 shares)	100,000	
Revaluation reserve	25,000	
General reserve	40,000	
Retained earnings	116,100	
Draft Budgeted Profit for the year	65,000	346,100
Trade payables	25,100	
Other amounts owing	18,400	
Bank overdraft	21,800	65,300
		411,400

1. Past trends show that 2% of turnover is returned and a cash refund is given to customers. Turnover for the year is budgeted at €800,000 and goods are sold at an average margin of 20%. The budget has not factored in any returns.
2. In the new year, the company intends to start purchasing in bulk to save on transport costs and reduce amounts due to suppliers. This expected cost savings of €7,200 has been included in the budget profit. The managing director has expressed concerns about pursuing this change in purchasing procedures as renting out more warehouse space will be very difficult to achieve.
3. There is the intention to expand the current product range and a marketing consultant has submitted a proposal of €15,000 to carry out this assignment. This is shown as Research and Development with a corresponding entry in Other amounts owing.
4. Company policy states that the cost method is to be used for the valuation of all non current assets. The managing director was approached with an offer of €150,000 for the property which had a book value of €100,000. The managing director informs you that he was prudent and only recognised half of this potential gain in the draft profit with the balance being shown as a Revaluation Reserve. The value of the property has been increased accordingly. As the managing director has no intention of selling, professional valuers have not been engaged by the company to assess the property.

5. The company is meticulous in carrying out maintenance of its equipment which is depreciated on a straight line basis. The managing director therefore felt that there was no need for a depreciation charge and the budget profit in fact includes a reversal of €5,200 which was the depreciation charge for year ended 31 August 2013.
6. A new car costing €50,000 will be bought for the managing director in October 2013. The dealer is asking for a cash payment of €40,000 with the balance to be paid in 15 months' time. The draft budget duly includes the cash payment that will be required during financial year. The company depreciates its motor vehicles at 25% on cost at the year end.
7. A court case against a previous customer who owed the company €40,000 is at the appeal stage and a judgement is expected shortly. The company lawyers are very confident that the appeals court will uphold the sentence of the first court which found in the company's favour. The managing director adopted a prudent view and has accounted for this as a transfer to a General Reserve in the Budget.
8. The effective tax rate is 35%. The draft budget has not taken the tax charge into consideration.
9. At the annual general meeting to be held in November 2013, the directors will be proposing a final net dividend of €20,000 for the financial year ended 31 August 2013. This has not been accounted for in the Budget of 2014.

Required:

a. Prepare a Statement showing the adjusted budget profit, stating a reason for each adjustment. **(8 marks)**

b. Draw up an adjusted Budget Statement of Financial Position as at 31 August 2014. **(10 marks)**

c. Non current assets may be carried at cost less accumulated depreciation or at a revalued amount. Explain how the two methods would impact the financial statements **and** briefly state how a change in the valuation method is treated in the accounts. **(6 marks)**

Question 5

Console plc asked its trainee accountant to work out the profit for the year and to extract the balances as at 30 June 2013. The result was the following trial balance.

	€	€
Capital: Ordinary		400,000
8% Preference Shares		150,000
Share Premium		30,000
Retained earnings 1 July 2012		30,000
Draft profit for the year		28,460
General Reserve		20,000
Investments	110,000	
Premises/Accumulated Depreciation	354,800	16,000
Fixtures/Accumulated Depreciation	123,000	82,700
Motor Vehicles/Accumulated Depreciation	60,000	15,400
Trade Receivables/Trade Payables	66,830	36,150
Inventories	76,300	
Prepayments/Accruals	5,400	8,600
Bank	34,560	
Suspense		13,580
	830,980	830,890

Other personnel in the accounts department carried out a second check, and the following discrepancies came to light:

1. Premium of €20,000 received on a share issue during the year was considered as profit and transferred to the income statement.
2. No provision was made for a final instalment of half of the dividend on preference shares.
3. Depreciation of 2% on premises was charged against profits but not transferred to Depreciation Allowance account. Depreciation was computed on the amount shown in the Premises account as brought down on 1 July 2012 and there were no acquisitions or disposals of premises during the year.
4. A total of €5,360 in the sales day book was carried forward as €3,560 and a page in the purchases daybook was under added by €1,200.
5. Discounts received of €850 were posted to the credit of the supplier's account.
6. Maintenance and redecorating of premises costing €4,800 were posted to premises account.
7. Returns, selling price €2,215, from a customer were posted to the debit of his account while the credit side of an account in the purchases ledger was over added by €750.
8. Goods, costing €16,000, were included in inventories at selling price though correctly entered in the income statement. Goods are sold at a uniform margin of 20%.

Required

a. Prepare journal entries to correct the above and a suspense account, if required. **(13 marks)**

b. Prepare a statement of corrected profit. **(5 marks)**

c. Describe **three** types of errors that do not affect the trial balance and give an example of each. **(6 marks)**

Question 6

The following balances have been extracted from the books of **Cup'n'Cake Ltd** at the end of its financial year which ended on 31 July 2013.

	€
Revenue	6,680,000
Purchases	4,550,000
Returns in	22,800
Returns out	35,600
Administration expenses	300,300
Selling and distribution	518,400
Research and development costs incurred	265,000
Property (Land and Buildings)	3,000,000
Allowance for depreciation on Buildings	470,000
Equipment at cost	1,370,000
Allowance for depreciation on Equipment	610,000
Motor vehicles at cost	630,000
Allowance for depreciation on Motor vehicles	230,000
Development costs capitalised	320,000
Allowance for amortisation of Development costs	85,000
Inventory	556,900
Trade receivables	964,000
Trade payables	1,045,000
Allowance for doubtful debts	45,000
Cash and bank	57,600
Issued share capital (Ordinary shares of €1 each)	1,200,000
Revaluation reserve	750,000
Share premium	600,000
Retained earnings	429,400
Interim ordinary dividend paid	125,000
6% Secured debentures	500,000

The following information is available:

1. The value of inventory at the year end amounts to €412,000.
2. Water and electricity expense due but still unpaid at the year end is estimated at €5,800 while telecom bills outstanding amounted to €3,500.
3. The reconciliation of the bank account after the year end shows bank charges of €1,200 which had not been accounted for.
4. In order to motivate its sales team, management have introduced a commission of 1% of gross revenue, effective from the start of the financial year. This has not been accounted for.
5. The company considers itself as a market leader and as such invests in research and development. It is estimated that 80% of the Research and development (R&D) costs incurred are on pure research. Capitalised Development costs are amortised over 5 years.
6. Allowance for debts which may not be recovered is estimated at 5% of trade receivables.
7. The debentures are secured by a charge on immovable property. These were issued on 1 February 2013 and interest is payable annually after one year.

8. On the same date the directors paid an interim dividend and made a bonus issue of 1 in 5 by capitalising the Share Premium. A final dividend of €100,000 will be proposed.
9. Property includes Land with a carrying value of €1 million. This is revalued on a regular basis and at the year end its fair value is estimated at €1.2 million.
10. The other non current tangible assets are valued at cost and depreciated as follows:
    - Buildings at 2% on cost
    - Equipment at 5% on cost
    - Motor vehicles at 15% on net book value.

Required:

a. A Statement of Comprehensive Income and a Statement of Changes in Equity for year ended 31 July 2013 of Cup'n'Cake Ltd. **(11 marks)**

b. A Statement of Financial Position of the company as at that date. **(7 marks)**

c. "Capitalising R&D costs is simply deferring the expense incurred." Comment on this statement and explain the treatment of R&D expenditure and the reasons for such treatment. **(6 marks)**

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UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2013

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	4th September 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

A foreign owned company has decided to close down its operations in Malta and paid €90,000 to the general manager as a redundancy payment. He invested this redundancy payment to start up his own business retaining the previous product range. He has asked for your assistance to prepare a cash budget to determine whether there will be the need of bank financing and has provided you with the following information forecasted for the coming months.

1) Operations will commence in June 2013 and 50% of the following month's sales will be procured in June. As from July onwards, purchases will consist of 50% of the current month's sales and 50% of the following month's sales. The purchase price per unit is estimated at €6. This is expected to increase to €6.50 per unit as from 1 September 2013.

2) All purchases are on credit. 10% are paid for in the month of purchases. Half of the remainder is paid after one month of purchase, while the other half is paid in the month following.

3) Sales are forecasted as follows:

	Units	Selling price per Unit
June	Nil	-
July	6,600	€10
August	7,100	€10
September	8,200	€12
October	8,600	€12
November	9,000	€12
December	8,900	€12

4) 20% of sales are expected to be cash sales. The remaining balance is expected to be settled in the month following the sale.

5) Gross wages of €10,000 per month will be payable for June, July and August. It is expected that gross wages will increase to €11,000 per month from the beginning of September 2013. Net wages will be paid on the last day of the month and the tax and national insurance deductions will be paid in the following month. The tax deduction amounts to 5% of gross wages and the employees' share of national insurance contribution amounts to 10% of gross wages. The employer's share of national insurance contribution also amounts to 10% of gross wages.

6) Sales and administration costs are forecast at €8,200 per month and will be paid in the month in which they are incurred.

7) Rent is forecast at €42,000 per annum and it is to be paid in advance on a six monthly basis, that is, in June and in December of each year.

8) Fittings costing €60,000 will be purchased at the beginning of June and will be paid for in cash. Storage equipment costing €35,000 will also be bought for cash in August 2013 so as to meet the expected increase in demand.

9) These non-current assets have an estimated useful life of ten years. Depreciation is to be provided on a pro-rata basis from month of purchase.

Required:

a. Prepare a monthly cash budget for the **five** months ending 31 October 2013. **(12 marks)**

b. Prepare a budgeted income statement for the five months ending 31 October 2013 and a budgeted statement of financial position as at that date. **(10 marks)**

c. Explain **two** main differences between a cash budget and a budgeted income statement. **(6 marks)**

Please turn the page.

Question 2

aStore plc imports technological goods for the local market. It has a lease of 25,000 square meters in a leading shopping mall from which it retails its products: Mobile Phones; Smart Phones; Laptops; and PCs. Each product has a designated floor area. The company's fixed costs of €500,000 are apportioned to each product on the basis of square metres allocated to each product.

The following information is for the year ended 30 June 2013.

	Mobile Phones	**Smart Phones**	**Laptops**	**PCs**
Area - square metres	7,000	4,000	10,000	4,000
Turnover - €'000	700	900	650	300
Cost of Sales - €'000	315	540	325	120
Other Variable costs - % of Turnover	10%	9 %	12%	25%

Market research indicates an increasing demand for Tablets. The directors conducted a feasibility study which shows that 2,000 square metres would be needed to reach projected annual turnover of €200,000. The budgeted gross profit margin on Tablets is 70% and other variable costs are estimated at 8% of turnover.

The directors have approached the owners of the shopping mall to try to lease more space but there is a long waiting list of other retailers who also want more space as well as new shops that would like to open shop in the mall. The directors are not keen to look for other retail space as this would substantially increase annual costs and also complicate processes. As no more space can be leased, the directors are considering to stop selling PCs and start selling Tablets instead.

Required:

a. Calculate the profit for the company, analysed by product, under the current set up. **(4 marks)**
b. Calculate the profit for the company if Tablets are sold instead of PCs. **(4 marks)**
c. Suggest how the available area may be allocated to sell the five products in the most profitable manner. **(14 marks)**
d. Write a short report to the directors explaining your workings in (c), stating the assumptions that you have made. **(6 marks)**

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

Question 3

Marretlura Limited is the main player in its market and is currently analysing the results obtained for the year ended 30 June 2013. Following the entry into the market of another major competitor, a senior management strategy meeting was held to discuss ways on how to improve results for the coming year.

The following information relates to the year ended 30 June 2013:

Units sold and produced	20,000
Selling price per unit	€100
Direct cost per unit	€60
Selling and distribution costs: Variable	€140,000
Fixed	€175,000
Other Fixed costs	€380,000

Variable selling and distribution costs include commissions paid to the company's salesmen amounting to 3% of sales value. Fixed selling and distribution costs include €125,000 salaries paid to the company's salesmen.

The following alternatives were proposed for the coming year:

Alternative 1: Increase the selling price by 10% resulting in a decrease of 5% in units sold when compared to the previous year.

Alternative 2: Reduce the selling price by 5% resulting in a 15% increase in number of units sold.

Alternative 3: Improve the quality of the product which would increase the direct cost by €5 per unit. This will result in an increase in selling price by 10% and an increase in sales units of 5% from the previous year level.

Alternative 4: Motivate the sales team by increasing their commission to 9% of sales value and decreasing their fixed salary by €24,600. This should result in a 20% increase in the number of units sold.

Required:

a. Calculate the contribution per unit for the year ended 30 June 2013. **(2 marks)**

b. Prepare profit statements for the year ended 30 June 2013 and the expected profit for each proposed alternative. **(12 marks)**

c. Calculate the break-even point and the margin of safety for the year ended 30 June 2013 and compare it with the break-even point and the margin of safety if Alternative 4 is adopted. **(4 marks)**

d. Compile a short report commenting on the results obtained in (c). **(6 marks)**

Please turn the page.

Question 4

Bling Ltd designs and produces ethnic jewellery from its 10,000 square metre facility at Marsa. Overheads are absorbed using pre-determined rates calculated for each department.

The costs budgeted for the year just ended were as follows:

	€
Depreciation of machinery	220,000
Maintenance of machinery	360,000
Electricity	532,000
Insurance of premises	75,000
Depreciation of premises	50,000
Production bonus	150,000
Health insurance	250,000
Supervisors' wages	160,000

The work required is carried out in four different departments and the following information has been provided:

	Design	**Cutting**	**Assembly**	**Packing**
Budgeted Machine hours	1,000	25,000	28,000	2,500
Actual Machine hours	1,200	22,500	29,400	4,500
Electricity units consumed	70,000	200,000	160,000	80,000
Number of employees	5	60	75	10
Direct wages - €	156,000	873,600	936,000	124,800
Budgeted Labour hours	10,400	124,800	156,000	15,600
Actual Labour hours	12,480	112,320	171,600	17,600
Floor area - % of facility	5%	35%	50%	10%

The actual overheads incurred for each department were as follows:

	Design	**Cutting**	**Assembly**	**Packing**
Actual overheads incurred - €	110,000	700,000	810,000	160,000

Required:

a. For each department calculate:
   - i. the budgeted total overheads; **(8 marks)**
   - ii. a suitable overhead absorption rate; and **(4 marks)**
   - iii. the over/under absorbed overheads for the year. **(6 marks)**

b. Mention <u>**three**</u> advantages of using a pre-determined overhead absorption rate for each department <u>**and**</u> briefly explain the meaning of over/under absorbed overheads. **(6 marks)**

Question 5

The cost accountant of **Drapes Ltd**. has prepared the August 2013 budget based on standard costing.

1. Budgeted output is 40,000 units at a selling price of €80 per unit.
2. It is estimated that each unit requires 4 metres of material costing €12.00 per metre.
3. Each unit also needs 5 hours of labour at the standard rate of €5.00 per hour.
4. Variable overheads and fixed costs for the month are budgeted at €80,000 and €150,000 respectively.
5. Variable and fixed costs are absorbed on labour hours.

The actual results for August were as follows:

1. Units produced and sold were 41,500 generating sales revenue of €3,237,000.
2. Actual material used was 195,000 metres at a cost of €1,950,000.
3. Total labour cost amounted to €996,800 for 178,000 hours worked.
4. Actual variable overhead was €98,000 while Fixed costs incurred amounted to €145,000.

Required:

a. For the month of August 2013, prepare a statement showing Budgeted and Actual Profit. **(6 marks)**

b. Analyse the difference between Budget and Actual Profit by calculating the following variances:
   - i. Total Material variance (Price and Usage).
   - ii. Total Labour variance (Efficiency and Rate).
   - iii. Total Variable Overhead variance (Expenditure and Efficiency).
   - iv. Total Fixed overhead variance (Expenditure and Volume).
   - v. Sales profit volume variance and the Sales price variance. **(12 marks)**

c. Give **two** possible reasons that may give rise to Material variances, **and** another **two** possible reasons that may result in Labour variances. **(6 marks)**

Please turn the page.

Question 6

Best Fashion Limited operates a number of fashion shops in the main shopping areas. Each shop is supplied from a central warehouse and on 1 July 2013 there were 5,200 units in the central warehouse valued at €197,600.

The following stock movements took place during the month ended 31 July 2013:

Purchases	Units	Purchase Price per unit - €	Freight & Insurance - €
July 3	2,800	36.00	8,400
July 14	4,250	37.00	12,750
July 24	6,670	38.80	21,344

Issues	Units	Selling Price per unit - €
July 5	4,000	48
July 18	4,600	48
July 22	2,200	50
July 26	1,900	52
July 28	2,700	52

The following additional information is also available:

Normal consumption per day	510 units
Maximum consumption per day	525 units
Minimum consumption per day	490 units
Re-order period/Delivery lead time	3 – 5 days
Re-order quantity	2,000 units

Required:

a. Calculate the value of closing inventory held at the central warehouse as at 31 July 2013 using the following methods of valuation:
   i. First in First out basis (FIFO); and
   ii. Weighted average cost (AVCO). **(8 marks)**

b. Calculate the profit for the month of July 2013 under each method of stock valuation. **(4 marks)**

c. On the basis of information provided for the month of July, calculate the:
   i. Re-order level;
   ii. Minimum stock level; and
   iii. Maximum stock level. **(6 marks)**

d. Briefly explain why the value of inventory varies when using different methods of stock valuations **and** how this affects profit. **(6 marks)**