L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2021 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	4th October 2021
TIME:	4:00 p.m. to 7:05 p.m.

This paper contains **THREE** sections. Follow the instructions below.

Section A
Answer any **FIVE** questions from this section. Each question carries 4 marks.

Section B
Answer question 8. **This question is compulsory** and carries 30 marks.

Section C
Answer any **TWO** questions from this section. Each question carries 25 marks.

You must show the working leading up to your answers.
Candidates may only use non-programmable calculators in this examination.

SECTION A
Answer any FIVE questions in this section. This section carries a total of 20 marks.

1. Why are non-current assets depreciated? Explain the underlying accounting concept. (4)

2. The formation of a company requires the preparation of the Memorandum and Articles of Association.
   (a) What is the main objective of each document? (2)
   (b) Highlight the main areas covered by each document. (2)

3. Explain the difference between a trade discount and a cash discount; and describe their accounting treatment. (4)

4. Describe (a) the Going concern Concept; and (b) the Prudence Concept and give an example of how these are applied in practice. (4)

5. Define the term provision and briefly explain how it differs from a reserve, providing **TWO** examples of each. (4)

6. The objective of a set of financial statements is to provide information to users to aid decision making. In order to achieve this objective, the information in the financial statements should be relevant and faithfully represent the operations, financial position and cash flow activities of the company.
   (a) Identify the other qualitative characteristics (known as enhancing or secondary) of financial information that would affect the usefulness of the financial statements. (2)
   (b) Describe **TWO** of these enhancing characteristics and provide an example that illustrates the impact of these characteristics on the quality of the financial information. (2)

7. (a) Briefly comment on why existing and potential investors are considered important users of Financial Statements. (2)
   (b) Identify **TWO** other users of Financial Statements, briefly describing their information needs. (2)

(Total: 20 marks)

Questions continue on next page

SECTION B
Answer Question 8 in this section. This question is compulsory and carries 30 marks.

8. The following is the trial balance as on 31 December 2020 of Willow plc, sellers of DIY home furniture:

	DR	CR
	€	**€**
Land	250,000	
Buildings	125,000	
Allowance for depreciation on buildings		7,500
Shop fittings - cost	195,000	
Allowance for depreciation on Shop fittings		48,750
Motor Vehicles - cost	58,000	
Allowance for depreciation on Motor Vehicles		38,576
Inventory	263,375	
Trade receivables	128,000	
Bank		20,000
Trade payables		78,000
Ordinary share capital (Nominal value €1 per share)		200,000
Accumulated Losses	3,000	
Sales		969,832
Purchases	480,000	
Returns	34,000	91,000
Utilities	2,400	
Marketing	69,000	
Advertising	15,000	
Wages and salaries	156,000	
Directors' remuneration	3,000	
Delivery & packaging expenses	10,912	
Bank loan		339,029
	1,792,687	**1,792,687**

Further information:

a) The value of the closing inventory was €368,000.
b) During the year ended 31 December 2020, the directors of Willow plc decided to expand their distribution channels to cater for online orders and deliveries by means of the 'Willow-Swift' app. New IT hardware had to be purchased, costing €50,000. This transaction has not been reflected in the above trial balance because it has not yet been paid.
c) It is the company’s accounting policy to allow for depreciation as follows:

Non-Current Asset	Depreciation method	Depreciation rate
Buildings	Straight Line Method	5%
IT hardware	Straight Line Method	12.5%
Motor Vehicles	Reducing Balance Method	16.67%
Shop Fittings	Straight Line Method	25%

A full year's depreciation is allowed for in the year of acquisition of a non-current asset, and none in the year of disposal. No allowance for the depreciation for the year 2020 on any non-current asset has been made so far.

d) The Bank Loan statement shows total bank loan interest charged of €5,085 during the year. This loan interest has not been posted in the accounts.
e) In September 2020, a customer launched a court case against Willow plc for an injury sustained as a result of faulty equipment. The lawyers of Willow plc have estimated that the case could settle at €10,000, but this estimate is not reliable. Willow plc's lawyers had invoiced Willow plc €2,500 as at the end of year. The invoice has not been posted in payables and is still unpaid.
f) To fund a new growth plan for 2021-2023, the company issued unsecured debentures of €800,000 as at 1 July 2020. These bear interest at 3% per annum and are repayable within 5 years' time. Only half of these debentures were actually taken up. Debenture interest is payable in January and July in arrears. The issue of the debentures and the related interest are not reflected in the above trial balance.
g) Furthermore, a fresh issue of 200,000 ordinary shares was made in November 2020, at a premium of €0.50 per share. As at 31 December 2020, the shares were fully taken up and paid, but the transaction was not recorded in the accounts.

Required:

A. Prepare a Statement of Profit and Loss for the year ended 31 December 2020. (13)
B. Prepare the Statement of Changes in Equity for the year ended 31 December 2020. (5)
C. Prepare a Statement of Financial Position as at 31 December 2020. (12)

(Total: 30 marks)

SECTION C

Answer any TWO questions from this section. Each question carries 25 marks.

9. Alexia Abela set up in business as a computer technician a year ago. She has asked you to be her accountant, and you accept the task for a fee of €5,000 per annum.

   Alexia started business by depositing €13,000 in a business bank account on 1 January 2020. All payments and receipts were effected through the business bank account unless otherwise indicated. She started using her car solely for business purposes. It was worth €7,200, and Alexia had estimated that it shall last for 4 years.

   Alexia drew €180 per week from the business bank account, and she paid €590 for her summer holiday in Gozo from the same account.

   On 1 April 2020, Alexia signed a contract to rent an office at €9,600 per annum payable in advance. She had borrowed €8,000 from her brother, Francis, to help pay for the first rent, and she agreed to pay him interest of 1% per annum in arrears.

   On 1 May 2020, Alexia employed a part-time office clerk for a salary of €6,000 per annum. The clerk is paid at the end of the month. Since the employment is on a part-time basis, no national insurance contributions are payable by Alexia. The office clerk is also not subject to income tax.

Questions continue on next page

The office clerk analysed the bills up to 31 December 2020, and informed you that materials of €19,200 had been purchased on credit, and only €1,060 worth of materials were still in stock at year-end. Supplier balances of €1,428 were still owing on 31 December 2020. Furthermore, €9,600 worth of equipment were purchased by cheque. The equipment has an expected life of 5 years.

Water and electricity bills paid for the period 1 April to 30 September 2020, amounted to €2,244. Alexia confirmed that, on average, utilities are consumed evenly throughout the year.

Motor expenses and general expenses paid for the year were €1,824 and €2,698, respectively. The insurance premium of €1,600 paid covers the 12-month period up to 31 March 2021.

Sales invoices for services rendered during the period amounted to €159,726, but only €151,226 had been received from customers by 31 December and deposited in the business bank account. A client who owes €500 is refusing to pay, claiming that he was not satisfied with Alexia's service. Alexia informed you that she is not going to chase the client for payment.

Some small jobs were carried out and cash collected immediately. These sales amounted to €6,836, but only €5,200 were deposited in the bank account. Alexia used €800 for personal needs, and the office clerk used the rest for general expenses, except for €246 which were left over in a cash till in the drawer in the office on 31 December 2020.

Required:

A. Draw up a Statement of Profit and Loss for the year ended 31 December 2020, and a Statement of Financial Position as at that date. (20)

B. Describe the accruals concept and identify **TWO** instances from your answer in (A) that illustrate the application of this concept in practice. (5)

(Total: 25 marks)

10. The Chief Executive of Header plc managed to obtain a summary of the published accounts of a competitor, Footer plc, and asked the accountant to compare the results of the two companies. The following were extracted from the financial statements of the two companies for the year ended 31 December 2020:

Statement of Financial Position

	Header plc	**Footer plc**
	€	**€**
Non-current assets *(Book value)*	250,000	380,000
Inventories	125,000	104,000
Trade receivables	85,000	168,000
Bank	25,000	18,000
	485,000	**670,000**
Ordinary share capital *(€1 nominal value)*	150,000	300,000
Retained earnings	32,500	76,000
5% Debentures	100,000	200,000
Trade payables	175,000	78,000
Other payables	27,500	16,000
	485,000	**670,000**

Statement of Profit and Loss

Sales	600,000	800,000
Cost of sales	360,000	400,000
Gross profit	240,000	400,000
Expenses	180,000	240,000
Net Profit for the year	**60,000**	**160,000**
Dividends paid during 2020	30,000	40,000

All sales were on credit.
Inventories on 1 January 2020 were valued at €85,000 for Header plc and €136,000 for Footer plc.

Required:

A. Compute the following ratios for each of the two companies:
   i. Gross profit margin
   ii. Net profit margin
   iii. Current ratio
   iv. Acid test ratio
   v. Gearing ratio
   vi. Trade receivables collection period
   vii. Inventories turnover
   viii. Return on capital employed (16)

B. Using the results computed in part (A), compare and comment on the profitability, efficiency and liquidity of the two companies. (9)

(Total: 25 marks)

Questions continue on next page.

11. The following balances were extracted from the ledgers of Jibfast Manufacturing plc on 31 December 2020:

	€	€
Ordinary share Capital *(€0.50 per share)*		360,000
General Reserve		55,000
Retained earnings		17,000
Sales		960,000
Raw material purchases	396,400	
Trade receivables/Trade payables	52,000	19,200
Wages and Salaries:		
Factory (60% direct; 40% indirect)	180,000	
Administration	22,000	
Selling and distribution	29,500	
Carriage: Raw materials	5,075	
Carriage: Finished goods	2,600	
Salespersons commission	5,340	
Royalties (on units produced)	23,170	
Inventories 1/1/2020:		
Raw materials	15,500	
Work-in-progress	7,200	
Finished goods at transfer prices	38,720	
Loose tools	5,230	
Returns	12,300	9,760
Provision for unrealised profit		3,520
Bad debts written off	6,500	
Water and electricity:		
Factory	28,450	
Offices	2,870	
Showrooms	4,560	
Canteen costs	31,500	
Repairs to buildings	31,500	
Administration expenses	28,970	
Advertising	13,540	
Insurance	10,870	
Non-Current Assets: *Premises*	360,000	
Plant and machinery	92,000	
Office furniture and equipment	85,000	
Motor vehicles	74,500	
Allowance for depreciation 1/1/2020:		
Buildings		53,000
Plant and machinery		42,000
Office furniture and equipment		45,200
Motor vehicles		18,300
Bank balance	17,685	
	1,582,980	***1,582,980***

Notes to the accounts:

a) All finished goods are transferred to finished goods inventories at a manufacturing profit of 10%.

b) Inventories at 31 December 2020:

Raw Materials	€18,600
Work-in progress	€6,060
Finished goods at transfer prices	€28,820

c) On 31 December 2020, loose tools were valued at €3,640.

d) Canteen expenses are to be apportioned according to the number of persons making use of its facilities namely: manufacturing 1,500; offices 280; and sales 320.

e) Insurance is to be divided equally between factory, offices and showroom.

f) The asset of Premises includes land valued at €150,000. The balance represents buildings, which are depreciated at 2% straight line. The other non-current assets are depreciated as follows:

Plant and machinery	10% straight line
Office furniture and equipment	20% straight line
Motor vehicles	25% on net book value

g) Three-fifths of the buildings depreciation and of repairs to buildings is to be charged to manufacturing, and the rest divided equally between offices and showrooms.

h) The Motor vehicles depreciation charge is to be shared equally between Carriage In and Carriage Out.

i) Accrued expenses as at 31 December 2020 were Commission to salesforce €2,800 and Showrooms' water and electricity €800.

j) Insurance was prepaid by €2,200; and €4,500 of advertising costs have been paid on account for a campaign scheduled for the forthcoming accounting period.

Required:

A. Prepare the Provision for Unrealised Profit account; (2)

B. Prepare the Manufacturing account for the year ended 31 December 2020. (11)

C. Prepare the Statement of Profit and Loss for the year, distinguishing between Administration and Selling and Distribution expenditure; (7)

D. Explain why a company would value inventory of finished goods at cost plus manufacturing profit. (5)

(Total: 25 marks)

Questions continue on next page.

12. The following are the statements of financial position for Marjorie Limited as at 31 December 2019 and 2020:

	31 December 2019			31 December 2020		
	€	€	€	€	€	€
<u>Non-Current Assets</u>	**Cost**	**Acc. Dep.**	**NBV**	**Cost**	**Acc. Dep.**	**NBV**
Shop Premises (Land)	200,000	0	200,000	100,000	0	100,000
Shop Premises (Buildings)	165,000	(33,000)	132,000	82,500	(18,150)	64,350
IT Equipment	15,000	(12,000)	3,000	65,000	(22,600)	42,400
Motor Vehicles	30,000	(4,000)	26,000	55,000	(16,750)	38,250
Office Fittings	20,000	(8,000)	12,000	20,000	(10,400)	9,600
	430,000	(57,000)	373,000	322,500	(67,900)	254,600
<u>Current Assets</u>						
Inventories		73,000			212,000	
Trade Receivables		5,000			157,000	
Cash and Cash Equivalents		8,000			0	
			86,000			369,000
<u>TOTAL ASSETS</u>			459,000			623,600
<u>EQUITY AND LIABILITIES</u>						
Ordinary share capital			200,000			200,000
Retained Earnings			117,800			339,000
			317,800			539,000
<u>Non-Current Liabilities</u>						
0.5% Loan		130,000				0
<u>Current Liabilities</u>						
Trade payables	10,550			29,100		
Interest Payable	650			500		
Bank Overdraft	0			55,000		
Total Current Liabilities		11,200	141,200		84,600	84,600
<u>TOTAL EQUITY AND LIABILITIES</u>			459,000			623,600

The following information is available in respect of the year ended 31 December 2020:

a) Due to the effects of the COVID-19 pandemic, Marjorie Limited has adapted its 2020 sales strategy to become predominantly online. Thus, during the last quarter of the year, it sold half of the physical shop premises (that is, half of the land and buildings) for €300,000. There were no other disposals of non-current assets. The company invested in more IT equipment costing €50,000 and a new motor van costing €25,000.
b) It is the company's policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal. Non-current assets are depreciated at the following rates:

Buildings	2% straight line method
IT Equipment	20% reducing balance method
Motor vehicles	25% reducing balance method
Office Fittings	20% reducing balance method

c) The 0.5% Loan and loan interest were fully paid at the beginning of the year 2020. The accrued interest payable on 31st December 2020 related to the bank overdraft interest for the year.

d) No dividends were paid during the year.

Required:

A. Prepare a Statement of Cash Flows for Marjorie Limited for the year ended 31st December 2020. (20)

B. Although Marjorie Limited's net assets and retained earnings have increased in 2020, upon seeing Marjorie Limited's 2020 Statement of Financial Position, the bank with which the company has an overdraft highlighted that Marjorie Limited is not in a favourable liquidity position:
   i. Briefly explain what is meant by liquidity, comparing it to profitability; and (3)
   ii. Outline **TWO** key areas where Marjorie Limited could improve its liquidity position. (2)

(Total: 25 marks)

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

L-Università ta' Malta

ADVANCED MATRICULATION LEVEL
2021 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	II
DATE:	5th October 2021
TIME:	4:00 p.m. to 7:05 p.m.

This paper contains **THREE** Sections. Follow the instructions below.

Section A
Answer any **FIVE** questions in this Section. Each question carries 4 marks.

Section B
Answer question 8. **This question is compulsory** and carries 30 marks.

Section C
Answer any **TWO** questions from this Section. Each question carries 25 marks.

You must show the working leading up to your answers.
Candidates may only use non-programmable calculators in this examination.

SECTION A
Answer any FIVE questions in this section. This section carries a total of 20 marks.

1. Explain the difference between:
   a) Direct and indirect costs; and
   b) Variable and fixed costs.
   Provide **TWO** examples for each type of cost mentioned in (a) and (b). (4)

2. Distinguish between '*allocation of overheads*', '*apportionment of overheads*' and '*absorption of overheads*'. Give examples to illustrate your answer. (4)

3. A business produces two different types of products which require the same type of material. During the preparation of the budget, it is determined that the availability of such material would not be sufficient to achieve the budgeted output.
   Describe how management would determine the ideal production quantities of each type of product, assuming that the business cannot acquire the material from other sources. (4)

4. Briefly explain the difference between 'time-rate' and 'piece-rate' methods of labour remuneration, identifying **TWO** advantages and **TWO** disadvantages associated with each method. (4)

5. Describe over and under absorption of overhead, <u>and</u> provide **ONE** example to show how these can occur. (4)

6. (a) Explain the terms (i) contribution; (ii) break-even; and (iii) margin of safety. (3)
   (b) Mention and briefly comment on **TWO** limitations associated with break-even analysis. (1)

7. Mention **THREE** benefits of preparing budgets, <u>and</u> explain why the cash budget is considered to be an important management tool. (4)

(Total: 20 marks)

Questions continue on next page

SECTION B
Answer Question 8 in this Section. This question is compulsory and carries 30 marks.

8. T-Shirt Ltd produces embroidered t-shirts. The directors of T-Shirt Ltd are currently working on the cash projections for the first quarter of 2022 and have requested your attendance as the accountant of the company, at the forthcoming board meeting.

The following is the projected Statement of Financial Position of T-Shirt Ltd as at 31 December 2021, for management accounting purposes:

	€	€	€
Non-current assets	*Cost*	*Dep.*	*NBV*
Property, Plant and Equipment	240,000	24,000	216,000
Current assets			
Inventories - Raw Materials		35,000	
Inventories - Finished Goods		24,000	
Trade receivables		25,000	
Prepayment (see note j)		100	
Cash and cash equivalents		103,550	
			187,650
Total assets			**403,650**
Equity			
Ordinary share capital			20,000
Retained earnings			268,450
			288,450
Current Liabilities			
Trade payables			115,200
Total equity and liabilities			**403,650**

The following information is available:

a) The budgeted selling price per t-shirt for 2022 is €20.
b) The forecast production and sales in units are as follows:

	January	**February**	**March**
Production – units	12,200	16,200	19,600
Sales – units	10,100	14,600	17,500

c) T-Shirt Ltd sells t-shirts to both retail and individual customers. 30% of the sales are made to retailers. The credit terms adopted in 2021 shall continue applying for retail sales occurring in 2022, that is, 45% of the sales revenue from retailers will be received during the month the t-shirts are sold, whilst the other 55% will be received during the following month. Sales to individual customers are on a cash basis, and benefit from a 5% cash discount.
d) The first-in first-out method of valuation is used to value the inventory of finished goods. For management accounting purposes, inventory of finished goods is valued at variable production cost.
e) The projections of the Production Department confirm that the variable production cost per unit for the first quarter of 2022 shall be €1.00 lower when compared to the last quarter of 2021, and comprises the following:

Budgeted Variable Production Cost per unit for 2022	**€**
Material	10
Direct Labour	3
Production Overhead	2
Total	15

f) The purchasing department forecasts that purchases of raw materials for the first four months of 2022 are as follows:

January	**February**	**March**	**April**
€130,200	€175,800	€205,200	€225,750

T-Shirt Ltd shall continue following the credit terms of 2021, that is, 40% of purchases are settled in the month in which they are made, and the remaining 60% shall be paid in the month following that of purchase. The trade payables of €115,200 shown in the projected statement of financial position as at 31 December 2021 are estimated amounts due to suppliers of raw materials, in line with these credit terms.

g) All other variable production costs (excluding purchases of raw material) are paid for in the same month when incurred.

h) T-Shirt Ltd is planning to introduce a free delivery service in the first quarter of 2022. A motor van costing €26,600 shall be acquired in January 2022. An agreement was reached with the supplier to pay a deposit of 40% on delivery in January and to settle the remaining balance in three equal monthly instalments in February, March and April.

i) Property, plant and equipment are to be depreciated over a period of 10 years and motor vehicles over a four-year period. The residual value of all the assets shall be deemed to be nil.

j) In November 2021, T-Shirt Ltd shall enter into an advertising contract for a whole year with a local marketing company. An amount of €100 is to be paid monthly in advance. In December 2021, T-Shirt Ltd shall pay the advertising company the €100 in advance to cover advertising services for the month of January 2022.

k) T-Shirt Ltd estimates that it will incur other fixed overheads of €3,600 per month, including depreciation of property, plant and equipment. These expenses are to be settled in the month in which they are incurred.

Required:

A. Prepare a monthly cash budget for the three months ending 31 March 2022. (15)

B. Prepare a budgeted Statement of Profit and Loss for the three months ending 31 March 2022 and a budgeted Statement of Financial Position as at that date. (15)

(Total: 30 marks)

Questions continue on next page

SECTION C

Answer any TWO questions from this Section. Each question carries 25 marks.

9. John Borg imports ice cream products for the local market. His main item is called FreezeCold. He is seeking your advice as a management accountant to determine which method of inventory valuation to adopt.

The following information is available with respect to FreezeCold for the month of August 2021:

Purchases	Units	Price per Unit	Freight Costs - Total	Insurance Costs – Total
		€	€	€
4 August	3,200	1.20	800	160
7 August	4,000	1.22	850	190
13 August	5,800	1.25	1,200	250
18 August	3,200	1.25	850	110
29 August	4,320	1.30	990	306

Sales for the month of August 2021 were as follows:

Sales	Units	Selling Price per Unit
		€
5 August	3,950	3.00
12 August	5,200	3.00
19 August	7,100	3.25
30 August	4,810	3.30

On 1 August 2021, there were 2,300 units in inventory valued at a total cost of €3,450.

As management accountant, you gathered the following additional information:

Re-order period	3 – 5 days
Economic order quantity	4,000
Maximum consumption per day	1,200
Minimum consumption per day	500

Required:

A. Calculate the inventory value as at 31 August 2021 using the following methods of valuation:
   i) First In First Out (FIFO) on a perpetual basis;
   ii) Weighted Average Cost (AVCO) on a perpetual basis. (10)

B. Calculate the gross profit for the month of August 2021 using both methods of inventory valuation calculated in part (A) above. (4)

C. Using the information gathered, calculate the following:
   i) Re-order level;
   ii) Maximum inventory level;
   iii) Minimum inventory level. (6)

D. Briefly comment on the difference between the perpetual and periodic methods of inventory valuation. (5)

(N.B. The inventory value per unit is to be calculated to the nearest 2 decimal places.)

(Total: 25 marks)

10. Porte Limited manufactures five types of doors, each priced according to its design and quality.

The projected production costs per unit for the next financial year are as follows:

Product	**A**	**B**	**C**	**D**	**E**
	€	**€**	**€**	**€**	**€**
Direct Materials	86	182	218	280	306
Direct Labour	30	28	38	56	52
Variable Overheads	20	22	26	30	38

The expected product sales in units and the expected selling prices for the coming year are as follows:

Products	**A**	**B**	**C**	**D**	**E**
Sales – units	300	320	400	380	600
Selling price per unit (€)	210	330	410	520	570

General fixed overheads per annum amount to €92,000. Other fixed production costs are incurred specifically by each product as follows:

	€
Product A	9,600
Product B	10,240
Product C	18,400
Product D	19,000
Product E	36,000

Following a review of the market and prices offered by competitors, it was noted that the company was not competitive on some of its door models. A foreign company producing similar models was approached and the following prices were quoted by the foreign company for the supply of the five products:

Products	**A**	**B**	**C**	**D**	**E**
	€	**€**	**€**	**€**	**€**
Offer price per unit	220	240	300	420	560

Note that Porte Limited does not hold inventories of finished goods.

Required:

A. Prepare a statement showing which products the company should continue to manufacture and which products the company should consider buying from the foreign company. (9)

B. Prepare profit statements for the coming financial year for the two following scenarios:
   i) The company manufactures all of its five products;
   ii) The company adopts your recommendation in part (A) above. (8)

C. The foreign company is willing to offer a 10% discount on product D provided that Porte Limited buys at least two other products from it. Prepare a profit statement if this offer is accepted by Porte Limited, clearly indicating which is the best course of action for the company. (4)

D. Briefly discuss the implications the management of the company must keep in mind when deciding whether to make or buy a product. (4)

(Total: 25 marks)

Questions continue on next page

11. Yummy Limited is a local company producing a popular snack. The product is manufactured in three processes where the output of each process passes directly to the next process and is finally transferred to stores as inventory of finished goods.

The following information is available for the month of July 2021:

	Process 1	**Process 2**	**Process 3**
Direct material – kgs	42,000	-	-
Direct material – €	63,000	-	-
Direct labour - €	36,000	12,000	24,000
Other direct expenses - €	5,850	5,128	340

The production overheads amounted to €36,000. These are absorbed by each process on the basis of direct labour cost.

The company has a quality control section which checks the quality of the units at the end of each process. Those units that fail the quality control tests are treated as losses and sold as scrap. The total losses resulting from each process and the selling price of such units were as follows:

	Process 1	**Process 2**	**Process 3**
Total losses – units	2,800	2,860	200
Selling price per unit - €	1.50	1.50	1.80

In Process 1 and Process 2, losses amounting to 5% of input were expected. No losses were expected to arise in Process 3.

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

Required:

A. Prepare the process account for each process; (15)
B. Prepare the abnormal loss account; (5)
C. Explain why **and** how normal losses and abnormal losses are accounted for differently. (5)

(Total: 25 marks)

12. Cozinha Limited operates three sections in order to manufacture kitchen furniture according to the specifications required by its parent company, which is situated in Italy. The company is labour intensive, and since most of the material is supplied by the parent company, local purchases are relatively low.

The budgeted data for the year 2021 was as follows:

Sections	**Direct Labour cost - €**	**Direct Labour hours**	**Machine Hours**	**Production overheads - €**
Cutting	694,000	100,000	17,000	1,013,000
Assembling	600,000	120,000	25,400	420,000
Finishing	336,000	48,000	4,000	360,000

A charge of 20% of total production cost is added to cover administrative costs. The selling price is derived by grossing up total cost with a 15% mark up.

The following data is in respect of Job UniCoz, which was carried out during August 2021:

Sections	**Direct Labour cost - €**	**Direct Labour hours**	**Machine Hours**	**Direct Material Cost - €**
Cutting	2,940	420	160	3,000
Assembling	7,400	1,500	400	5,440
Finishing	1,860	260	80	6,560

For a number of years, Cozinha Limited has been using a blanket production overhead absorption rate calculated as a percentage of total direct labour cost. In a recent strategic meeting, it was suggested that an overhead recovery rate for each section would result in more accurate pricing.

Required:

A. Calculate the current production overhead absorption rate and apply this rate in order to establish the selling price for Job UniCoz; (8)

B. In line with the suggestion made, calculate overhead recovery rates for **each** Section using appropriate bases of absorption, and work out the alternative selling prices for Job UniCoz accordingly; (12)

C. Prepare a report to management commenting on the results obtained in (A) and (B) above. (5)

(Total: 25 marks)