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SUBJECT:	<b>Accounting</b>
DATE:	31 <sup>st</sup> August 2018
TIME:	4:00 p.m. to 7:05 p.m.

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

**Section A**

Answer question 1. This question carries 24 marks.

**Section B**

Answer any **TWO** questions from this Section. Each question carries 18 marks.

**Section C**

Answer any **TWO** questions from this Section. Each question carries 20 marks.

The use of non-programmable electronic calculators is allowed.

**SECTION A****Answer Question 1. This question carries 24 marks.**

1. The Algoods Retailing plc extracted the following Trial Balance as at 30 June 2018:

	€	€
	<b>Debit</b>	<b>Credit</b>
Land	260,000	
Buildings/Depreciation allowance	248,000	68,000
Furniture and fittings/Depreciation allowance	84,000	22,000
Motor vehicles/Depreciation allowance	106,000	45,000
Inventories	62,000	
Trade receivables/payables	83,000	52,000
Bank		29,190
Purchases/Sales	632,000	1,335,000
Wages and salaries	123,000	
Transport expenses	36,200	
Electricity	28,300	
Advertising	64,800	
Administration costs paid	58,400	
Administration costs b/f on 1 July 2017		4,350
Selling expenses	37,800	
Bad debts	35,600	
Allowance for doubtful debts		3,690
Discounts	26,400	18,960
Returns	27,630	15,740
5% Loan		120,000
Loan interest	3,000	
Director's remuneration	60,000	
Ordinary shares €0.50 nominal value		200,000
Share premium		20,000
General reserve		30,000
Retained earnings		12,200
	<b>1,976,130</b>	<b>1,976,130</b>

The following additional information is provided:

a) Inventories on 30 June 2018 had an original cost of €84,500. When examined, it was found that goods valued at €7,200 were damaged and were going to be scrapped.

b) Accrued expenses as at 30 June 2018 were:

	€
Selling expenses	2,400
Administration costs	8,300
Electricity	2,600

c) Advertising expenses included €8,200 for a promotional campaign due to start in early September 2018.

- d) Non-current assets are depreciated on the year end values, as follows:
- |                        |                       |
|------------------------|-----------------------|
| Buildings              | 5% on cost            |
| Furniture and fittings | 20% on cost           |
| Motor vehicles         | 40% on net book value |
- e) Transport expenses, including depreciation for motor vehicles, are to be divided between carriage in and carriage out in the ratio 2:3.
- f) It is company policy to consider 3% of trade receivables at year end as doubtful and to make an allowance accordingly.
- g) Sales include €4,500, the proceeds from the disposal of a motor van. The original cost of the van was €17,500, and accumulated depreciation allowance amounted to €10,800. No entries other than bank and sales were made. It is company policy to provide a full year's depreciation in the year of acquisition of non-current assets, and none in the year of disposal.
- h) The loan was drawn on 1 July 2016 and interest is payable every 6 months in arrears.
- i) The board of directors proposed to transfer €10,000 to the General Reserve.

**Required:**

- A. For Algoods Retailing plc for the year ended 30 June 2018, prepare:
- i. The Statement of Profit or Loss; (10)
  - ii. The Statement of Financial Position. (10)
- B. The letter 'l' in plc stands for 'limited'. Explain what you understand by the word 'limited' in this context. (4)

**(Total: 24 marks)**

***Please turn the page.***

**SECTION B**

**Answer any TWO questions from this Section. Each question carries 18 marks.**

2. The following balances were extracted from the ledgers of Fireglow plc for the year ended 31 March 2018:

	€
Premises	350,000
Plant and machinery	450,000
Fixtures	65,000
Motor vehicles	84,200
Premises depreciation allowance	69,800
Plant and machinery depreciation allowance	126,200
Fixtures depreciation allowance	21,400
Motor vehicles depreciation allowance	34,500
Trade receivables	21,500
Trade payables	34,800
Bank	18,900
Inventories: Raw materials	15,600
Work-in-progress	11,300
Finished goods	22,400
Direct factory wages	108,300
Supervisors' wages	36,800
Other factory wages	56,300
Electricity	42,200
Insurance	24,500
Repairs to buildings	11,400
Advertising	13,400
Administration expenses	18,700
Selling expenses	32,400
Returns in	39,600
Returns out	52,400
Discounts received	19,700
Discounts allowed	22,400
Carriage in	10,350
Carriage out	21,100
Royalties	15,800
Purchases	435,000
Sales	1,320,000

The following additional information is provided:

- a) Closing inventories:

	€
Raw materials	26,450
Work-in-progress	9,800
Finished goods	19,500

b) Amounts owing as at 31 March 2018:

	€
Electricity	3,650
Direct wages	12,400
Royalties	4,200

c) Insurance prepaid as at 31 March 2018 amounted to €2,500.

d) Depreciation on non current assets is to be provided as follows:

- i. Premises at 5% on cost;
- ii. Plant and machinery at 15% on cost;
- iii. Fixtures at 20% on cost; and
- iv. Motor vehicles to be depreciated at 25% on the written-down value.

e) 80% of electricity and insurance and 60% of costs related to premises are to be charged to the factory.

f) The Purchases for the year includes an entry of €16,500 that represents the amount paid for new furniture acquired during the year.

**Required:**

- A. Prepare the Manufacturing Account of Fireglow plc for the year ended 31 March 2018, showing clearly the prime cost, factory overheads and cost of finished goods produced. (9)
- B. Prepare the Statement of Profit or Loss for Fireglow plc for the year ended 31 March 2018. (6)
- C. Explain what is meant by the term 'Prime Cost'. What distinguishes the components of prime cost from those of other factory costs? (3)

**(Total: 18 marks)**

***Please turn the page.***

3. Good Catering plc manages a hotel. The company's books showed the following non-current assets on 1 July 2017:

<b>Asset:</b>	<b>Cost (€)</b>
Equipment	265,000
Motor vehicles	90,000
Cutlery	21,600

It is the company's policy to:

- provide a full year's depreciation in the year of acquisition and none in the year of disposal;
- write off equipment over 10 years, with an estimated residual value of 10% of cost;
- depreciate motor vehicles at 40% on net book value; and
- use the revaluation method for cutlery.

All the equipment was acquired when the hotel commenced operations on 15 September 2014. The motor vehicles on the company's books at the beginning of the year were acquired on the following dates:

	<b>Cost (€)</b>	<b>Purchase date</b>
Cars A and B	€18,000 each	September 2014
Van	€24,000	February 2016
Coach	€30,000	December 2016

During the year ended 30 June 2018:

- equipment, which had originally cost €64,000, was sold for €38,600. This was replaced by more modern equipment costing €82,000;
- the coach bought in December 2016 was traded in for a bigger one costing €42,000. The company paid an additional €22,000 for the new coach;
- €5,800 was spent on new cutlery. At the end of the financial year, cutlery was valued at €19,600.

**Required:**

- For the year ended 30 June 2018, prepare for Good Catering plc:
  - the Equipment, Motor Vehicles and Cutlery Accounts. (3)
  - the Allowance for Depreciation Accounts, including transfers to the Statement of Profit or Loss. (9)
  - the Disposal Accounts. (3)
- Explain why non-current assets should be depreciated annually. (3)

**(Total: 18 marks)**

4. Paul Caruana, who runs a drapery business, has prepared his draft accounts for the year ended 31 December 2017, including the following Statement of Financial Position:

	€	€
Non-current assets		85,000
Current assets: Inventories	36,400	
Trade receivables	9,800	
Bank	4,200	50,400
Suspense		403
		<b>135,803</b>
Capital	50,000	
Profit for the year	9,600	59,600
Liabilities:		
Non-current		60,000
Trade payables		16,203
		<b>135,803</b>

Caruana seeks your assistance to find the source of the balance on the suspense account. On examining his books, you discover that:

- a) a sales day book page totalling €684 has been carried forward as €864; and another page with a total of €1,230 has been overlooked;
- b) a cheque of €240 to a supplier to settle his account has been posted to purchases;
- c) The cash in the till does not match the balance in the petty cash book because a quarterly payment of €345 to a window cleaner has been entered twice. The expense was properly recorded once in the general ledger;
- d) the business expenses included a payment to a handyman amounting to €165, which was for works carried out at Caruana’s residence;
- e) an entry of €210 for a credit sale to Joshua Abela was entered in John Abela’s account;
- f) discounts allowed of €554 were mistakenly considered as discounts received and entered in the general ledger accordingly. However, they were correctly posted as discounts allowed in the personal accounts.

**Required:**

- A. Prepare journal entries to correct the above errors (narratives are not required). (6)
- B. Prepare the Suspense Account; and adjust the reported profit for the year and the Statement of Financial Position. (8)
- C. Describe **TWO** purposes of preparing control accounts. (4)

**(Total: 18 marks)**

***Please turn the page.***

5. Hereunder is a summary of the receipts and payments of Vintage Car Lovers Club (VCLC) for the year ended 31 December 2017:

<b>Receipts</b>	<b>€</b>	<b>Payments</b>	<b>€</b>
Competition ticket sales	840	Running costs	960
Subscriptions	9,850	Wages	9,430
Bar sales	18,600	Competition prizes	540
Loan	20,000	Bar purchases	9,730
		Electricity	4,230
		Equipment	3,600

The assets and liabilities of VCLC on 31 December 2016 and 2017 were:

	<b>2016</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
Equipment (net book value)	12,500	14,600
Bank and cash	3,200	?
Subscriptions in arrears	450	650
Subscriptions in advance	1,050	800
Owing: to bar suppliers	960	1,230
for electricity	--	220
Wages	780	1,050
Paid in advance: Electricity	96	--
Competition prizes inventory	140	90
Bar inventory	760	840

Further information for the year ended 31 December 2017:

- The annual subscription fee is €50.
- The subscriptions due from four members, who had failed to pay their subscriptions for two consecutive years, were written off on 31 December 2017 and not included in subscriptions in arrears.
- During competitions, refreshments at a cost of €220 were taken from the bar.
- 60% of wages are to be charged to the bar.
- On 1 January 2017, a member loaned the club €20,000, as shown in the receipts and payments account above. The loan bears interest at 5% per annum. The first loan repayment is due in January 2019.
- No equipment was disposed of during the financial year.

**Required:**

- Calculate the accumulated fund on 1 January 2017 **and** prepare the following for VCLC for the year ended 31 December 2017:
  - The Competition Account;
  - The Bar Trading Account;
  - The Income and Expenditure Account. (15)
- Explain why subscriptions in advance appear as a liability, while expenses paid in advance are considered an asset. (3)

**(Total: 18 marks)**



**SECTION C**

**Answer any TWO questions from this Section. Each question carries 20 marks.**

6. EB Enterprises, importers and distributors of domestic goods, had these transactions concerning one item of inventory during the six months between 1 January and 30 June 2018:

<b>Date</b>	<b>Receipts</b>	<b>Cost price per unit</b>	<b>Issues</b>
		<b>€</b>	
January	150	52	80
February			100
March	210	53	90
April			120
May	140	55	150
June	280	57	180

On 1 January 2018, inventories of the item in store amounted to 50 units, which had cost a total of €2,400.

It is to be assumed that the receipts occurred before issues in those months with both receipts and issues.

**Required:**

- A. Prepare statements showing closing inventory balances and valuations using  
 i. First in First out;  
 ii. Average Cost method of inventory valuation. (8)
- B. For each inventory valuation method in (A), calculate the cost of goods sold for the six-month period. (4)
- C. Explain the effect on reported profits of your calculations in (B). (4)
- D. Explain the importance of controlling inventory levels. (4)

**(Total: 20 marks)**

***Please turn the page.***

7. The production process of Zeta, a component used in the automotive industry, requires each unit to pass through two production departments, that is the Cutting and Assembly Departments. These two production departments are serviced by two service departments - stores and repairs.

For the month of August 2018, the budgeted production was 12,000 units of Zeta, with the following budgeted overheads:

Department	Overheads (€)
Cutting	40,000
Assembly	65,000
Stores	22,000
Repairs	18,000

Service departments' costs are allocated as follows:

	Cutting	Assembly
Stores	60%	40%
Repairs	45%	55%

The budgeted production activity for the month of August was as follows:

	Cutting	Assembly
Direct labour hours	30,000	60,000
Machine hours	48,000	18,000

One unit of Zeta required €80 of direct material. Direct labour in both production departments costs €10 per hour.

**Required:**

- A. Calculate overhead absorption rates for both the cutting department and the assembly department on the basis of:
  - i. labour hours
  - ii. machine hours (8)
- B. Calculate the total production cost of an order for 20 units of Zeta, using overhead absorption rates which, in your opinion, are more appropriate. (8)
- C. Provide **TWO** reasons why it is important to calculate overhead absorption rates. (4)

**(Total: 20 marks)**

8. Maltex plc, an enterprise in the electronics industry, produces a single product for the telecommunications sector. Its total annual productive capacity is 15,000 units, but presently market demand is for 11,000 units at the price of €85 per unit. The cost schedule of Maltex plc is as follows:

	€
Variable cost per unit:	
Material	25
Labour	30
Production overhead	15
Fixed overheads	138,000

The management of Maltex plc is concerned that the company is not realising its full potential and is considering the following two alternatives to improve profitability:

- a) Decrease the selling price per unit to €80. A research study shows that this will result in a demand of 15,000 units per annum provided that this price cut is supported by an advertising campaign, estimated to cost €14,000. Due to increased purchases of material and quantity discounts, the material cost per unit would fall to €23.
- b) Invest in new machinery with an annual depreciation charge of €10,500. The efficiency of the new machinery would result in decreasing labour costs to €25 per unit. Higher efficiency is also expected in less material being scrapped which should result in a savings of €3 per unit in material costs. Variable production overhead would increase to €16 per unit mostly due to maintenance costs required by the new machinery. It is envisaged that all 15,000 units produced would be sold at €80 per unit, provided that an advertising campaign costing €14,000 is carried out.

**Required:**

- A. Calculate the present profit of Maltex plc, showing clearly the contribution per unit, and the break-even point and margin of safety in units of sales. (6)
- B. For **EACH** alternative presented, calculate the profit, contribution per unit, the break-even point and the margin of safety. (10)
- C. Explain **TWO** limitations of break-even analysis. (4)

**(Total: 20 marks)**