



SUBJECT: **Accounting**
DATE: 1st September 2022
TIME: 4:00 p.m. to 7:05 p.m.

This paper contains **FOUR** 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 carries 30 marks.

Section C

Answer any **ONE** question from this section. This section carries 25 marks.

Section D

Answer any **ONE** question from this section. This section 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. Each question carries 4 marks.

1. Anne recently started a new job as an accounts clerk and has just extracted her first trial balance. She was glad to note that the totals are equal. However, her manager tells her that this does not mean that there are no errors in the book-keeping. Explain to Anne **TWO** types of errors that would **not** affect the trial balance, providing an example for **each**. (4)
2. John has opened a retail shop in Qormi selling pet food and accessories. He tells you that he aims to maintain a gross profit of 25%. You ask him whether he is referring to a mark-up or to a margin, but he has never heard of these terms. Explain to John the difference between a gross profit mark-up and a gross profit margin, using an example. (4)
3. Jim has asked you to be his accountant and prepare financial statements for his new retail business. "Nothing fancy", he says, "because these financial statements are for my eyes only". Explain to Jim why the financial statements have to be prepared in a formal way and identify **TWO** other potential users of the financial statements besides Jim, briefly explaining why they would be interested in Jim's financial statements. (4)
4. Loose tools are not depreciated using the straight line or reducing balance method. Does this mean that loose tools are not depreciated? Explain your answer. (4)
5. Production overheads are absorbed into unit cost using an absorption rate based on labour hours or machine hours. What are the main criteria to consider in order to choose which absorption base is the more appropriate? (4)

Questions continue on next page.

6. Eve, a sole trader, has been operating a hair salon for a number of years. Lately, she has noticed that some of her suppliers have been asking for the name of her company. She asks you, as her accountant, to describe the main difference between a sole trader and a limited liability company and to highlight **TWO** advantages and **TWO** disadvantages of carrying out a business through a company. (4)
7. Adam is considering a job offer to work on the production line of Eden Ltd, a manufacturer of gardening equipment. The remuneration is calculated on an hourly basis, with the opportunity to earn a bonus based on efficiency. Explain to Adam how the bonus would be calculated, and why such a remuneration scheme could be beneficial for Eden Ltd. (4)

(Total: 20 marks)

SECTION B

Answer Question 8. This question carries 30 marks.

8. JM Boatmart, a sole owner retailing marine goods, extracted the following trial balance on 31 December 2021:

	€	€
Capital		200,000
Drawings	22,530	
Purchases	175,600	
Rent	5,620	
Salaries and wages	86,400	
Electricity	7,890	
Administration expenses	8,000	
Insurance	5,200	
Advertising	15,760	
Sales		494,800
Returns in>Returns out	27,130	11,750
Bad debts	6,530	
Discounts allowed/ Received	14,600	21,200
Communication expenses	6,300	
Carriage in	4,460	
Carriage out	7,272	
Inventories	19,600	
Trade Receivables/Payables	32,540	18,430
Equipment/Depreciation Allowance	178,500	31,400
Furniture/Depreciation Allowance	158,000	24,800
Motor Vehicles/Depreciation Allowance	57,600	17,852
Cash	2,140	
Bank		21,440
	841,672	841,672

The following are to be taken into consideration:

- a) Inventories on 31 December 2021 cost €17,600.
- b) Rent includes an amount of €780 paid for the owner's private residence. The Rent of the business was prepaid by €820 as at 31 December 2021.
- c) As at 31 December 2021, salaries and wages owing amounted to €4,800, and electricity accrued €2,730.
- d) Advertising cost appearing in the Trial Balance includes €2,850 for a promotional TV campaign scheduled to be aired in March 2022.
- e) Sales personnel are entitled to a commission of 5% of net profit realised after charging the commission. The commission for 2021 has not yet been paid.
- f) The figure for sales includes sales invoiced at €28,740. The client is entitled to a 20% trade discount, which was not taken into consideration on the invoice.
- g) Equipment and Furniture are depreciated at 15% and 12%, respectively, both on cost. Motor Vehicles are depreciated at 40% on net book value. A full year's depreciation is charged in year of acquisition, and none in year of disposal.
- h) A sign to be affixed to one of the retail outlets of the business costing €1,230 has been charged to purchases instead of furniture.
- i) Purchased goods costing €6,300 invoiced in December 2021 were not received until 23 January 2022. Purchases are posted to the books on invoice date.
- j) Additional storage facilities, using material purchases for resale costing €2,640, were erected in three days by two of the enterprise employees. Each worker earns a five-day weekly wage of €300. The new storage is estimated to last for 20 years.
- k) Interest charges of €1,420 were charged directly by the bank but not posted to the cash book.

Required:

- A. For the period ended 31 December 2021, prepare JM Boatmart's:
 - i. Statement of Profit and Loss; and (15)
 - ii. Statement of Financial Position. (10)
- B. Distinguish between Cash Discount and Trade Discount, giving **ONE** example for **each**. (5)

(Total: 30 marks)

Please turn the page.

SECTION C

Answer any ONE question from this section. This section carries 25 marks.

9. Maestro Ltd is a retail outlet dealing in musical instruments and paraphernalia. The following balances relating to the year ended 31 March 2022 were extracted from its books:

	€
Cash sales	8,540
Trade receivables 31 March 2022	20,397
Cash purchases	2,750
Trade payables 31 March 2022	14,582
Credit notes received	3,210
Credit notes sent	2,960
Amounts refunded to a credit customer for overpayment	870
Dishonoured cheques	1,370
Discounts allowed	4,550
Discounts received	6,128
Bad debts written off	1,173
Cheques received from credit customers	62,136
Cheques paid to credit suppliers	22,760
Rent Paid	12,000
Insurance Paid	5,400
Commission received	900

Other information:

a) Balances on 1 April 2021:

	Debit balances	Credit balances
	€	€
Sales Ledger	15,400	1,720
Purchases Ledger	890	21,400
Rent	4,000	--
Insurance	800	--
Commission receivable	900	--

- b) Accounts receivable totalling €5,140 were set off against accounts payable.
- c) Apart from cheques received from credit customers, a further amount of €2,940 cash was received from credit customers and recorded in the petty cash book.
- d) At 31 March 2022, refunds owed to credit customers amounted to €1,140 and refunds due from credit suppliers were €2,410.
- e) The annual rent of €12,000 is payable in advance on 1 August each year.
- f) The insurance premium paid during the year refers to an annual policy expiring 30 April 2022.
- g) Commission of 20% is receivable on sales of a brand of guitar strings, which sales amounted to €3,000 during the year under review. These sales are included in the figure for cash sales provided above.

Required:

- A. For the year ended 31 March 2022, prepare for Maestro Ltd:
- i. the Rent Account, Insurance Account and Commission Receivable Account; (4)
 - ii. the Sales Ledger Control Account; and (10)
 - iii. the Purchase Ledger Control Account. (9)
- B. Calculate the total sales and purchases for the year. (2)

(Total: 25 marks)

10. Jeanne Ceramics plc extracted the following trial balance on 31 December 2021:

	€	€
Sales		1,750,000
Raw material purchases	480,000	
Accounts receivables/payables	56,400	35,200
Direct factory wages	500,000	
Indirect factory wages	84,000	
Administration salaries	66,000	
Cleaners' wages	26,200	
Supervisors' wages	42,200	
Factory water and electricity	36,150	
General Utilities	25,000	
Inventories: Raw materials	85,000	
Finished goods	43,980	
Work-in-progress	26,000	
Purchases of loose tools	11,000	
Royalties	35,400	
Rent	44,000	
Insurance	26,300	
Carriage in	14,400	
Carriage out	25,800	
Returns in>Returns out	13,700	21,300
General administration expenses	28,400	
Discounts allowed/Discounts received	19,200	24,700
Bank		26,300
Cash	1,770	
Loose tools at valuation on 1 January 2021	9,200	
Machinery/ Allowance for depreciation	285,000	42,600
Fixtures and fittings/ Allowance for depreciation	164,000	28,200
Office equipment/ Allowance for Depreciation	176,000	34,600
Ordinary Share Capital of €0.50 per share		300,000
General reserve		50,000
Retained earnings		12,200
	2,325,100	2,325,100

This question continues on next page.

Additional information:

a) Inventories at 31 December 2021:

	€
Raw materials	35,600
Finished goods	17,500
Work-in-progress	44,500

b) Annual depreciation is to be provided as follows:

Machinery	10% on cost
Fixtures and fittings	30% on net book value
Office equipment	20% on cost

c) The following costs are to be apportioned as indicated:

	Manufacturing	Administration
General utilities	5	2
Insurance	5	3
Rent and Cleaners' wages	6	4

d) An expense of €2,430 for factory overheads was recorded as an administration cost.

e) The figure for inventories of raw materials in the trial balance included goods costing €3,760 which were scrapped during the year because they were damaged.

f) Fittings costing €4,600 were included in raw material purchases.

g) At the year end, administration salaries still unpaid amounted to €6,000; a General Utilities bill for €690 was still pending; and Insurance was prepaid by €4,940.

h) On 31 December 2021 loose tools were valued at €14,720. On the same day general administration expenses included unused goods in the form of stationery and postage stamps costing €860 which were carried forward to next year.

Required:

For the period ended 31 December 2021, prepare the following **TWO** statements for Jeanne Ceramics plc:

- A. The Manufacturing Account; and (15)
 B. The Statement of Profit and Loss. (10)

(Total: 25 marks)

11. The following balances appeared in the books of Tiller plc on 1 July 2021:

	Cost	Accumulated Depreciation
	€	€
Machinery	190,600	65,800
Equipment	79,800	32,400
Motor Vehicles	57,900	32,918

During the twelve months ended 30 June 2022, the following transactions concerning these non-current assets took place:

September 1: New machinery was purchased for €38,500.

November 1: A van purchased in December 2018 for €14,600 was part exchanged for a new one. The trade-in allowance for the old van was €3,800. The outstanding amount of €18,200 was settled by a cash payment of €6,000 and the rest is payable in equal instalments after 30 June 2022.

January 15: Machinery purchased in April 2019 for €52,800 was proving inefficient for the new production methods which were recently introduced. This was disposed of for €7,600. To make good for this disposal, a modern attachment costing €8,640 was purchased for a machine acquired in August 2020. It was envisaged that the attachment's useful life would end at the same time as the machine it was attached to, and that the scrap value of the machine would remain the same. Unless otherwise stated, machinery was purchased in December 2017.

April 1: Equipment includes computers costing €43,200, which were replaced by new ones. All equipment, including computers, had been purchased in December 2017. As the computers were still in working order, they were sold to second-hand dealers for a nominal price of €7,500. The new computers cost €54,800. A further €3,200 were spent to change all ducting including new cables for the computers. This expense was needed as the old ducting and wiring were inadequate for the more technologically advanced computers.

June 20: A motor vehicle was involved in a collision and considered a write-off. An agreement was reached with the vehicle insurance company for a settlement of €8,400. The vehicle was purchased in January 2020 for €17,300.

Tiller plc uses the following depreciation methods:

Machinery	Cost spread over 10 years with 10% scrap value
Equipment	Cost spread over 8 years with 5% scrap value
Motor Vehicles	40% on written down value

Furthermore, it is Tiller's policy to provide a full year depreciation in the year of acquisition but no depreciation in the year of disposal.

Required:

For the twelve months ended 30 June 2022 prepare for Tiller plc's:

- A. The Machinery, Equipment and Motor Vehicles accounts. (7)
- B. The Allowance for Depreciation Account for **each** category of non-current asset. (10)
- C. The Disposal of Non-current Asset Account for **each** category of non-current asset. (8)

NB. All accounts must show the opening and closing balances and transfers to the Statement of Profit and Loss.

(Total: 25 marks)

please turn the page.

SECTION D

Answer ONE question from this section. This section carries 25 marks.

12. Come Clean plc are importers and distributors of one type of filters for the motor industry. On 31 March 2022, inventories of filters stood at 42 units with a total cost of €651. The following are the movements in inventories for the period 1 April 2022 to 31 May 2022:

Date	Units	Cost € per unit
Purchases:		
2 April	150	14.20
21 April	90	16.50
25 April	135	15.60
16 May	140	13.80
30 May	180	13.00
Issues:		
13 April	110	
22 April	115	
11 May	142	
28 May	125	

The issues during April and May are representative of the expected demand for the year 2022. Daily minimum and maximum demand amount to 6 and 12 units, respectively. It takes between 5 to 9 days from raising a purchase order and the receipt of the goods. There is a cost of €1.50 for storage per unit and an administration cost of €9.80 per order made.

Required:

- A. Calculate the closing inventory on 31 May 2022 using:
- the First in First out; and
 - the Average Cost methods. (17)
- B. Calculate the following inventory levels:
- The Economic Order Quantity;
 - The Reorder Level; and
 - The maximum and minimum levels of inventory. (8)

(Total: 25 marks)

13. C&S Enterprises has three production departments, namely Machining, Assembly and Spraying, and one service department, namely the Maintenance department, which supports the three productions areas. The following data is provided concerning these four departments:

	Machining	Assembly	Spraying	Maintenance
Area (square meters)	15,000	12,000	6,000	3,000
Machinery values (€)	50,000	25,000	30,000	5,000
Machinery power (Kwh)	160	80	120	--
Employees (number)	36	40	24	4
Labour hours	16,500	24,500	11,250	2,250
Machine hours	36,000	15,600	26,800	--

The following are the budgeted production overheads for the three-month period ending 30 June 2022:

	€
Indirect wages Machining	83,665
Indirect wages Assembly	132,280
Indirect wages Spraying	47,975
Wages Maintenance	14,960
Rent	4,320
Machinery depreciation	7,920
Machinery electricity consumption	6,120
Employees insurance	1,560
Lighting and air conditioning	3,060

The Maintenance department expenses are apportioned between the production departments according to the machinery power.

During the same three-month period, **Job 675** logged the following details in its production:

	€
Direct material	560.40
Direct labour	355.00

Department	Machine hours	Labour hours
Machining	24	8
Assembly	11	21
Spraying	14	9

Required:

- Apportion the overheads to the production departments according to appropriate criteria. (9)
- Calculate a Machine Hour and a Labour Hour overhead absorption rate for the production departments, and identify which is the applicable absorption rate for **each** department. (6)
- Using the results obtained in (B), calculate the cost of Job 675. (10)

(Total: 25 marks)