



SUBJECT:	Accounting
PAPER NUMBER:	Specimen Paper
DATE:	
TIME:	3hrs

This examination paper consists of four sections. Follow instructions given in each Section.

Answer ALL questions in Section A. Section B consists of one compulsory question. Choose ONE question from Section C and ONE question from Section D.

SECTION A

Answer **ALL** the questions.

- 1) Identify **THREE** users of accounting information and explain why they would need this information. (4)
- 2) Explain the difference between capital and revenue reserves, giving **ONE** example of each. (4)
- 3) What is the purpose of calculating an overhead recovery rate? (4)
- 4) Describe **TWO** situations where the time basis of remuneration is likely to be more suitable than piecework schemes. (4)
- 5) Describe how the break-even point is calculated and explain why it is important for management. (4)

(Total: 20 marks)

SECTION B

Answer this **Compulsory** question.

6. Agius Supplies Ltd operates a manufacturing concern producing ceramic products. The following balances have been extracted from the books of the company on 31st December 2016.

Trial Balance for the year ended 31 December 2016		
	DR	CR
	€	€
Ordinary Share Capital of €1 each		250,000
General Reserve		40,000
Retained Earnings		36,125
5% Bank loan		180,000
Buildings	520,000	
Machinery	356,000	
Furniture and fittings	89,200	
Motor vehicles	66,500	
All for depreciation - Buildings		72,800
All for depreciation - Machinery		178,000
All for depreciation - Furniture & Fittings		44,365
All for depreciation - Motor Vehicles		42,600
Factory rent	66,000	
Vehicles expenses	36,800	
Stationery	1,650	
General expenses	958	
Factory Direct wages	158,700	
Supervisor salaries	65,400	
Directors' salaries	123,000	
Water and electricity bills	17,200	
Power	52,000	
Returns	13,350	7,890
Carriage outwards	7,452	
Sales		1,205,600
Purchases of raw material	395,200	
Inventory 1 Jan 2016 - Raw material	98,600	
Inventory 1 Jan 2016 - Work in progress	3,620	
Inventory 1 Jan 2016 - Finished goods	36,900	
Cleaning expenses	5,900	
Bank		88,750
Cash	21,600	
Trade receivables	43,600	
Trade payables		33,500
	2,179,630	2,179,630

Additional information:

1. Closing Inventory totals were as follows:

Raw Materials	€76,400
Work in progress	€2,265
Finished goods	€37,800

2. The factory rent paid covers the 10 month period till end of October 2016. The contract for the factory rent expires in 2020, and the rent payable shall be revised on renewal of the contract.

3. Depreciation is to calculated as follows:

Buildings	2% on Cost
Machinery	15% on Net book value
Furniture and fittings	10% Straight line method
Motor Vehicles	20% Reducing balance method

4. A trade receivable was declared bankrupt and the balance owing of €1,250 is to be written off. After this experience, the company decided to start providing a 2% allowance of trade receivables as doubtful debts.

5. No interest has yet been paid on the loan, which was drawn down on 1 January 2016.

6. In December 2016, the bill paid for water and electricity included €120 for rent of metres relating to January 2017.

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

	Factory	Admin	Distribution
Vehicles' costs/vehicles' depreciation	50%	10%	40%
General expenses	25%	60%	15%
Water and Electricity	10%	60%	30%

8. The Directors of Agius Supplies Ltd decided to transfer €5,000 to the General Reserve.

Required:

- a. Prepare the Manufacturing Account of Agius Supplies Ltd for the year ended 31 December 2016. (10)
- b. Prepare the statement of profit or loss and the statement of changes in equity for the year ended 31 December 2016. (12)
- c. Prepare the Statement of Financial Position of Agius Supplies Ltd as at 31st December 2016. (8)

(Total: 30 marks)

SECTION C

Choose **ONE** question from this section.

7. CardJo Ltd wants to analyse the results of its trading for the year ended 31st March 2017 and has prepared the following Financial Statements.

CardJo				
Statement of Profit or Loss for the year ending 31st March				
	2017		2016	
	€	€	€	€
Sales		13,000		10,000
Less Cost of Sales				
Opening Inventories	550		450	
Purchases	7,300		6,200	
Closing Inventories	(600)	(7,250)	(550)	(6,100)
Gross Profit		5,750		3,900
Less Administration and S&D Costs		(3,250)		(1,600)
Net Profit before Interest & Tax		2,500		2,300
Less Finance Costs (i.e. Debentures Interest)		(230)		(110)
Profit before Tax		2,270		2,190
Less Tax		(725)		(755)
Profit for the year		<u>1,545</u>		<u>1,435</u>

CardJo				
Statement of Financial Position as at 31st March				
	2017		2016	
	€	€	€	€
ASSETS				
Non-current assets (@NBV)		15,315		9,000
Current assets				
Inventories	600		550	
Trade receivables	1,200		1,100	
Cash & Bank	700	2,500	2,850	4,500
Total assets		<u>17,815</u>		<u>13,500</u>
EQUITY AND LIABILITIES				
Ordinary share capital		7,500		7,500
Retained earnings		4,245		2,975
Total equity		11,745		10,475
Non-current liabilities				
8% Debentures	4,500		1,500	
Current liabilities				
Trade payables	845		770	
Accrued Taxation	725		755	
		1,570		1,525
Total liabilities		6,070		3,025
Total equity and liabilities		<u>17,815</u>		<u>13,500</u>

Required:

- a) Calculate (to 2 decimal places) the following ratios for each of the years ended 31st March 2016 and 2017:
- i. Gross profit margin
 - ii. Net profit margin
 - iii. ROCE
 - iv. Current Ratio
 - v. Acid Test Ratio
 - vi. Trade Receivables collection period
 - vii. Trade Payables payments period
- (14)
- b) Using the ratios calculated in (a), compare the performance and liquidity of CardJo Ltd over the two years.
- (11)

(Total: 25 marks)

8. Global Ltd. is a company that delivers imported furniture to Maltese customers. Depreciation is calculated at the rate of 20% per annum using the reducing balance method. A full year's depreciation is charged on all vans held at year end. No depreciation is charged in the year of disposal.

On 1 January 2016, the vans in use had a cost of €25,500 and the total depreciation allowance amounted to €15,824. In the course of the following twelve months the following events occurred:

31 January 2016: A van that had been bought in 2013 for €10,500 was involved in a collision and was a complete write-off. The insurance company paid €4,100 in compensation on 15 April 2016.

15 May 2016: A van which cost €7,500 in 2014 was part-exchanged for a new one costing €13,750. The trade-in allowance was agreed at €3,250, with the rest being paid by cheque.

31 July 2016: Two vans were bought for €10,000 each. Insurance and maintenance on each van is expected to amount to €1,000 annually. Given the nature of the business, an additional €5,000 was spent to install lifting equipment in the vans.

Required:

a) Prepare the following accounts of Global Ltd for the year ended 31 December 2016:

- (i) The motor vans account;
- (ii) The allowance for depreciation account - Motor Vans;
- (iii) The asset disposal account.

(20)

b) Describe the Accruals Concept and explain how it is applied when depreciating non-current assets.

(5)

(Total: 25 marks)

SECTION D

Choose **ONE** question from this section.

9. Elaine Callus is considering starting a business on 1 September 2017. She is planning to introduce cash of €24,000 and borrow €12,000, interest free, from her father. She plans to repay her father in monthly instalments of €500 starting December 2017. She has approached her bank to negotiate an overdraft agreement. The bank has asked her to prepare a cash forecast for her first four months of operation. Her assumptions are the following:

1. On 1 September 2017 fixtures and equipment will be purchased on credit for €47,000. 20% are to be paid immediately. The rest are expected to be paid in €2,000 monthly installments starting October 2017. The fixtures and equipment are expected to have a useful life of 5 years and a residual value of €2,000.
2. Sales in the first two months of trading are expected to be €60,000 each month. These are expected to increase to €80,000 by November, and increase by another 10% of the previous month's sales in December.
3. Sales will be made both on cash and credit terms. 40% will be for cash and the remaining 60% on credit. Credit customers are expected to pay the amount due in the month following the one in which the sale is made.
4. Ms Callus has budgeted purchases for the four months as follows:

September	October	November	December
€24,000	€30,000	€40,000	€48,000

5. 50% of purchases are expected to be paid in the same month of purchase, while the rest are expected to be paid in the month after purchase.

6. During September 2017, €25,800 is expected to be paid for rent, and €9,900 for insurance. Both amounts represent annual charges paid in advance.
7. Monthly cash payments will be made in respect of wages €16,000, general expenses €2,000 and cash drawings of €4,500.
8. The first water and electricity bill amounting to €2,500 is expected to be paid in November 2017.

Required:

Prepare a monthly cash budget for the first four months of Elaine Callus' business, showing clearly the cash balance at the end of each month.

(Total: 25 marks)

10. John sells Do-It-Yourself kits. He uses the perpetual FIFO system of inventory valuation. On 1st April there were 150 kits in stock with a total value of € 20,700. Stock movements during the month of April were as follows:

Date	Kits Purchased	Purchase Price Per Unit €	Kits Sold
April 05	200	140	
April 11			275
April 15	170	145	
April 22			180

Kits are sold at a standard price of €220 per Kit.

Required

- a) Calculate the value of the closing inventory at the end of April using the perpetual FIFO method. (5)
- b) John would like to know what his inventory value would be had he used the perpetual AVCO method. Calculate the closing inventory using this method. (The Inventory value per Kit is to be calculated to the nearest two decimal places). (5)
- c) Calculate the Gross profit for each method of inventory valuation and explain why the profit differs. (8)
- d) John's accountant suggested that the monthly periodic stock inventory would be practical and quick. Calculate the closing inventory at end of April using the AVCO Periodic method. (3)
- e) Why is it important to control inventory levels? Mention **TWO** expenses associated with overstocking. (4)

(Total: 25 marks)