AM 01/I.14s

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2014

SUBJECT:	ACCOUNTING
PAPER NUMBER:	I
DATE:	2nd September 2014
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 following trial balance was extracted from the books of **Chain Solutions plc** on 31 December 2013, the end of its accounting period.

	€	€
Inventories: Raw materials	67,500	
Finished goods	140,800	
Work-in-progress	124,000	
Purchases of loose tools	24,000	
Raw material purchases	680,000	
Direct wages	230,000	
Indirect wages	124,000	
Salaries	98,000	
Factory power	56,000	
Electricity	44,000	
Royalties	80,000	
Warehouse rent	85,000	
Insurance	52,000	
Carriage in	15,400	
Carriage out	36,000	
Sales commission	58,600	
Returns in/Returns Out	54,200	26,300
Administration expenses	21,600	
Discounts allowed	63,200	
Sales		2,137,400
Accounts receivables/payables	156,400	22,300
Cash/Bank Balance	16,800	32,500
Machinery at cost/Accumulated Depreciation	1,125,000	212,000
Loose tools at valuation	32,200	
Motor Vehicles at cost/Accumulated Depreciation	180,000	32,000
Office equipment at cost/Accumulated Depreciation	152,000	17,400
Ordinary Share Capital (€2.00 per share)		1,000,000
Share Premium		120,000
General Reserve		80,000
P&L Balance		24,000
Provision for unrealised profit		12,800
	3,716,700	3,716,700

The following information is to be taken into consideration:

1. Finished goods are transferred from the factory at cost plus 10% manufacturing profit.
2. The directors decide to transfer €140,000 to a general reserve.
3. Provide for depreciation as follows

Machinery	10% on cost
Office equipment	25% on cost
Motor vehicles	40% on net book balance

4. On 31 December 2013 loose tools were valued at €34,500.
5. Inventories at 31 December 2013 were:

Raw materials	€84,700
Work-in-progress	€125,960
Finished goods	€167,200

6. The costs indicated below are to be apportioned as follows:

	Manufacturing	*Profit Statement*
Insurance	8	2
Electricity	5	3
Warehouse rent	1	1
Motor vehicles depreciation	2	3

7. €32,000 of foremen's wages were inadvertly charged to salaries. Salaries of €8,000 were outstanding at year's end.
8. Other amounts due were €1,400 for salesmen's commission and €4,400 for administration expenses.
9. Insurance and warehouse rent were prepaid by €3,400 and €13,000 respectively.

Required:
For the reporting period ended 31 December 2013, prepare for Chain Solutions plc:

a. The Provision for Unrealised Profit Account and the Loose Tools Account. **(4 marks)**
b. The Manufacturing Account, the Statement of Profit or Loss and the Statement of Financial Position. **(18 marks)**
c. Explain the purpose of a Provision for Unrealised Profit for a manufacturing concern. **(6 marks)**

Please turn the page.

Question 2

At the annual general meeting held in early 2014, the members of the **Swath Aircraft Club** were presented with the following report.

Financial Report - December 2013	**€**	**€**
Cash held at beginning of year		7,400
Receipts for the year	77,300	
Less payments made during the year:		
	(48,420)	28,880
Cash held at end of year		36,280

The members complained that this information was not satisfactory and a new member, who has a knowledge of accounting, was appointed as their new treasurer.

The new treasurer reviewed the records and drew up the following list of assets and liabilities of the club as at 1 January 2013.

	€
Premises	230,000
Refurbishment to premises	40,000
Equipment	51,900
Investment in 5% Malta Government Stock	25,000
Bar inventory	3,700
Accruals: Wages	1,200
Bar creditors	860

He also established that the following amounts were paid and received during the year to 31 December 2013

	€
Bar takings	38,900
Wages to barman	13,800
Amounts paid to bar suppliers	18,600
Sales of tickets for Gala night	6,100
Prizes for Gala night	1,000
Renting of hall for Gala night	3,000
Treasurer expenses	6,500
Secretary expenses	4,320
Repairs to equipment	1,200

The club president informed the new treasurer that on 1 January 2011, to celebrate the 10th anniversary of the club, a life membership scheme had been introduced. Under this scheme members were asked to pay a one-time sum of €900. The 8 committee members at that date had joined this scheme in the year it was introduced and another 6 joined in the following year. The amounts received had been recorded as receipts in the cash book and the intention was to recognise life membership fees as income over a 10 year period.

The minutes of the Annual General Meeting last year showed that it was agreed that:

(i) A Life Membership Fund was to be set up so as to record all transactions since the inception of the scheme on 1 January 2011 and the life membership subscription was set at €1,000 for those joining after 1 January 2013.

(ii) New members joining the club from 1 January 2013 had to pay a one-time administration fee of €20. This was to be recognised as income over a two-year period.

(iii) The annual subscription fee as from 1 January 2013 was to be increased to €150.

The new treasurer established that, as at 1 January 2013, 4 members had already paid their 2013 subscription before the increase was announced. He also noted that while 10 members had not paid their annual subscription of €125 for 2012, these had in fact paid the amount due in early 2013.

For the year ended 31 December 2013, the new treasurer took note of the following:

1. Of the 120 existing members, 7 members failed to pay their 2013 subscription by 31 December 2013. However, they were personally contacted by committee members and all promised to pay the amount due. The other members renewed and paid their annual subscription for 2013. This includes the 4 members who had prepaid their 2013 subscription the previous year. These members were not asked for the increase in the annual subscription.
2. 15 new members joined the club and they paid the newly required administration fee as well as the annual subscription.
3. The subscription fee for the coming 2014 season was received from 6 members before 31 December 2013.
4. 10 members, over and above those mentioned in (1) above, opted for the life membership scheme.
5. The value of goods in the bar at 31 December 2013 was valued at €4,500.
6. The depreciation charge for the year is €4,600 on premises and €10,500 on equipment.
7. Amounts due but not yet paid as at 31 December 2013 comprised wages €1,900 and bar suppliers €2,760.
8. Interest received on investments on 31 December 2013 was credited directly to the bank account.

Required:

a. A statement of Affairs for the Swath Aircraft Club as at 1 January 2013. **(6 marks)**

b. The Receipts and Payments and the Income and Expenditure accounts for the year ended 31 December 2013 and a Statement of Financial Position at that date. **(16 marks)**

c. Explain the treatment applied to Life Membership and Administration Fees **and** identify the accounting principle underlying such treatment. **(6 marks)**

Please turn the page.

<u>Section B</u>: Answer THREE questions from this Section. Each question carries 24 marks.

Question 3

The trial balance of **Fenders plc** for the reporting period ended 31 March 2014 included a balancing item. This amount was posted to a suspense account pending further investigation and subsequently, the following errors were found.

1. The electricity bill of one of the directors' residence, amounting to €820, was included in the business heating and lighting account.
2. A credit note of €340 sent to a customer was not posted to the personal account.
3. A payment of €1,630 for insurance was only entered in the cashbook.
4. The van was sold for €1,800 and the only entry made was to debit this amount to the bank account. This van was bought for €12,000 four years ago. At the time, it was estimated that the van would have no residual value at the end of its useful life, estimated at 5 years.
5. An invoice for €2,400 on new furniture acquired in January 2014 was posted to the purchases account.
6. Discounts received of €650 had been debited to the discount allowed account
7. A trade receivable balance of €1,365 had been set-off against a balance in the purchases ledger but no entry of this transaction was made in the purchases ledger control account.
8. A stock sheet with a sub-total of €8,640 on 31 March 2013, though correctly treated in the accounts of that year, had been carried forward as €6,840.
9. A page in the sales returns day book totalling €2,200 was not posted to the general ledger account.
10. Wages of €640 paid to two employees for a week's work to build extra shelving were charged to the wages account.
11. Furniture was depreciated at 20% on cost per annum, irrespective of the date of acquisition.

Required:

a. Prepare journal entries to correct the above errors. **(9 marks)**
b. Prepare the Suspense Account, assuming that the correction of the above errors cancel the balancing item in the trial balance. **(4 marks)**
c. If declared profits before corrections amounted to €24,860, prepare a Statement of Corrected Profit. **(5 marks)**
d. Explain, with relevant examples, why some errors do not affect the trial balance. **(6 marks)**

Question 4

Barque Ltd had the following opening balances in its books as at 1 January 2014:

Extract from Trial Balance	**Debit**	**Credit**
Trade receivables	€ 56,500	€ 8,300
Trade payables	€ 4,500	€ 51,700

The following totals were extracted from the personal accounts in the Sales and Purchases ledger as at 30 June 2014.

Personal Ledgers	**Debit**	**Credit**
Trade receivables	€ 68,500	€ 4,200
Trade payables	€ 3,700	€ 51,300

The following transactions were recorded for the **six month period** to end June 2014

	€
Credit Sales	342,100
Credit Purchases	431,800
Amounts received from customers	368,300
Amounts paid to suppliers	286,100
Cash sales	33,800
Cash purchases	22,700
Returns from customers	29,800
Returns to suppliers	22,400
Discounts allowed to credit customers	19,000
Discounts received from credit suppliers	25,600
Refund to cash customers	1,200
Bad debts written off	6,500

The following issues were identified for the six month period and need to be taken into consideration:

1. End of period checks showed that the Purchases Day Book was overcast by €7,800.
2. A cheque of €6,500 received from B. Brieme, was posted to his account as €5,600.
3. A discount of €4,200 allowed to A. Barque was not posted to his personal account.
4. Discounts received amounting to €3,900 were correctly recorded in the Cash Book but were not posted to the accounts in the Purchase Ledger.
5. A payment of €2,300 received from Brig and Co, a credit customer, was entered in the Cashbook as €3,200, but the correct amount was posted in the personal account.
6. It was noted that Boatswain plc, a supplier and a customer of the company, had a debit balance of €1,100 in the Sales Ledger and a credit balance of €2,900 in the Purchases Ledger.
7. A bulk purchase of €14,000 was obtained at a 10% trade discount. This transaction was posted in the Purchases Day Book at the list price.
8. An amount of €1,900, previously written off as bad, was recovered in an out of court settlement. This was correctly posted to Sales Ledger account but no entry was made in the Control Account.
9. The credit balance in Trade Receivables and the debit balance in Trade Payables in the Personal Ledgers as at 30 June 2014 were rechecked and found to be correct.

Please turn the page.

Required:

a. Draw up the Sales Ledger **and** the Purchases Ledger Control accounts for the six month period, taking into consideration the issues identified in the question. **(12 marks)**

b. Prepare two statements showing a reconciliation of the balances on the **two** Control Accounts with those of the personal accounts in both the Sales and the Purchases Ledgers. **(6 marks)**

c. "Keeping control accounts is a waste of resources." Comment on this statement and list **four** reasons why it is good practice to keep control accounts. **(6 marks)**

Question 5

The following balances were extracted from the books of **Shikara plc** as at 31 August 2014.

	€'000
Revenue	4,550
Purchases	2,757
Returns out	28
Administration expenses	538
Selling and distribution	410
Advertising campaign	60
Freehold land	2,450
Property	1,750
Machinery	1,825
Motor vehicles	430
Depreciation allowances b/f:	
Property	322
Machinery	625
Motor vehicles	150
Inventory b/f	218
Trade Receivables	899
Trade Payables	696
Specific allowance for doubtful debts	63
Cash	30
Bank balance (debit)	108
Ordinary share capital (€0.50 per share)	3,000
Revaluation Reserve	840
Share Premium	100
Retained earnings	616
Interim ordinary dividend paid	250
Proceeds from share issue	35
5% Debentures 2020	700

The following information is available:

1. Inventory held at the year-end is valued at €235,000. The stock take exercise revealed items which were damaged in transit to the retail outlet. These had originally cost €27,000 and can now be sold as shop soiled goods for €9,000.
2. As at year end, the only issue remaining with trade receivables was an amount €40,000 which had been outstanding for a long time and the company has started legal action against this customer.
3. Interest and charges of €8,000 debited by the bank have not yet been posted in the cash book.
4. Professional fees of €7,000 and water and electricity expense estimated at €5,000 are due but still unpaid at the year-end.
5. The advertising campaign, promoting the new product launched on 1 July 2014, will run for 6 months.
6. It is company policy to carry land at fair value. At the year end, the market value of the land is estimated to be €2.5 million. The other non-current assets are carried at cost less depreciation. Property is depreciated at 2% per annum, using the straight line method, while Machinery and Motor vehicles are depreciated using the reducing balance method at 10% and 20% respectively.
7. The debentures were issued in 1 September 2010 and mature on 31 August 2020. Interest on them is paid in September each year in arrears.
8. An extraordinary general meeting was held on 30 June 2014 when the directors declared the interim dividend and a bonus issue of 1 share for every 6 shares held by capitalising retained earnings. No entries have been made for the bonus issue. A public share issue of 50,000 new shares was made immediately after the bonus issue and the new shares were fully taken up. These proceeds have been credited to a Proceeds from Share Issue Account.

Required:

a. Prepare a Statement of Profit or Loss, a Statement of Changes in Equity for year ended 31 August 2014 and a Statement of Financial Position as at that date. **(18 marks)**

b. "When a company revalues its non-current assets to market prices, it is not exercising prudence." Discuss this statement, giving **<u>three</u>** reasons why you agree or disagree with it. **(6 marks)**

Please turn the page.

Question 6

On 1 April 2009 **Evenkeel** purchased a boat handling machine for €87,500. According to the supplier, the machine can be used, and is in fact guaranteed, for 50,000 hours with a lifetime of 5 years. It was estimated that at the end of its productive lifespan it would have a residual value of €6,500.

The following data relates to the usage of the machine for each of the past five years:

End of reporting period:	Number of Hours
31 March 2010	6,000
31 March 2011	10,000
31 March 2012	14,000
31 March 2013	15,000
31 March 2014	7,000

Required:

a. Calculate the amount of depreciation to be charged to profits in respect of the machine, for each of the above years, using:
   i) the equal instalment method of depreciation;
   ii) the reducing/diminishing balance method of depreciation at the rate of 40% per annum;
   iii) the usage method of depreciation. **(11 marks)**

b. During the year ended 31 March 2014, the machine was sold for €11,800. Applying the depreciation in (a) (i) above, prepare the Machine Account, the Allowance for Machine Depreciation Account and the Disposal Account for the year ended 31 March 2014. Company policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal. **(7 marks)**

c. "Accumulated depreciation is shown on the asset side of the Financial Position and should therefore have a debit balance", commented one of the directors.
   Write a short report to comment on this statement, explaining the resulting balance on the accumulated depreciation allowance account and its treatment in the statement of the financial position. **(6 marks)**

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD
UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
ADVANCED LEVEL
SEPTEMBER 2014

SUBJECT:	ACCOUNTING
PAPER NUMBER:	II
DATE:	3rd September 2014
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

CEE Limited manufactures and sells a specialised product, the Waw. During a meeting of the board of directors held in July 2014, the directors were informed that the budgeted profit figure for the three-month period April to June 2014 differed from the actual result by €14,737. The board of directors have asked you, as the company's management accountant, to prepare a report analysing the reasons for this difference.

Budgeted data for the period April to June 2014 were as follows:

Units produced and sold	18,200
Material per unit	12 kilograms at €0.60 per kg
Labour Costs per unit	3 hours at €8.40 per hour
Variable overhead – Total	€24,843
Fixed overhead – Total	€9,464
Machine Hours - Total	11,830 hours
Selling price per unit	€40.00

Actual results for the period were as follows:

Units produced and sold	21,000
Materials – per unit	13 kilograms at €0.65 per kg
Labour Costs – per unit	3.20 hours at €8.20 per hour
Variable overhead – Total	€24,960
Fixed overhead – Total	€9,800
Machine Hours – Total	12,800 hours
Selling price per unit	€42.00

Both the variable and the fixed overheads are absorbed on the basis of machine hours.

Required:

a. Calculate the following variances for the period April to June 2014:

i. The sales price and volume variances
ii. Total material variance analysed into price and usage variances
iii. Total labour variance analysed into rate and efficiency variances
iv. Total variable overhead variance analysed into expenditure and efficiency variances
v. Total fixed overhead variance analysed into expenditure and volume variances. **(14 marks)**

b. Calculate the company's actual and budgeted profit for the three-month period April to June 2014. **(6 marks)**

c. Prepare a statement to the board of directors reconciling the budgeted profit with the actual profit. **(2 marks)**

d. Prepare a short report to the board of directors on the usefulness of the statement you have prepared in (c) above. **(6 marks)**

Question 2

Sloop Limited commenced operations on 1 August 2014 and deposited the cash received from its issued share capital of €100,000 with Mdina Bank plc. The company requires a short term working capital bank facility and its bankers are asking for a report highlighting the cash requirements of the new operation for the quarter ending 31 October 2014. The directors of Sloop Limited have engaged you to prepare this report and have given you the following information.

At the start of its operations, the company acquired non-current assets costing €250,000 against a cash deposit of 20% payable on 1 August 2014. The balance is to be settled in five equal monthly installments. Non-current assets are to be depreciated using the straight line method at 20% per annum, on a pro-rata basis. The value of the non-current assets at the end of their estimated useful life is deemed immaterial.

At the beginning of August 2014, goods amounting to €40,000 were acquired on credit. Purchasing procedures require that inventory at the month end covers the sales projected for the following month. Payments to suppliers are for 40% of the goods acquired in the month of purchase with the balance being settled in the month following the purchase transaction.

Goods are sold at a uniform gross profit margin of 60% and budgeted sales are as follows:

August	€ 60,000
September	€ 72,000
October	€ 84,000
November	€102,000

One fifth (20%) of the amounts due for the sales transactions is expected to be received in the same month of the sale and such settlements attract a cash discount of 5%. Half (50%) of sales revenue will be settled in the month following the sale, and the remaining balance is expected to be received two months after the sale.

Gross wages are budgeted at €12,000 per month. Tax deductions and the employees' share of national insurance contribution amounts to 12% of gross wages while the employer's share of national insurance contribution is 10% of gross wages. Net wages are to be paid on the last day of each month whereas tax and national insurance contributions will be paid in the following month.

Finance costs, comprising interest and bank charges, estimated at €250 is payable at the end of the quarter. The insurance expense of €500 per month is payable on the first day of each month. Other overheads, excluding depreciation and insurance, estimated at €3,000 per month, are to be paid one month after they are incurred.

Required:

a. A monthly Cash Budget for the quarter ending 31 October 2014. **(12 marks)**
b. The budgeted Statement of Profit or Loss for the three months ending 31 October 2014 and the Statement of Financial Position as at that date. **(10 marks)**
c. Using the results obtained in (a) and (b) above, prepare a short report for the directors of Sloop Limited to explain how a company with an overdrawn bank balance may show a positive profit figure. **(6 marks)**

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

Question 3

D-Decision Limited is a local company manufacturing three products - E, K and S - for the local market. The company's pricing policy up to 30 June 2014 has been based on full cost plus 20%. However, following fierce competition in selling prices from the company's main competitor, a decrease in selling prices is being considered.

The following information is available for the three months ended 30 June 2014:

Products	**E**	**K**	**S**
Sales – units	4,000	6,400	12,000
Unit Cost:			
Direct Materials – €	160	260	72
Direct Labour – €	120	170	48
Variable Overheads – €	30	100	36
Total Fixed Overheads – €	110,000	80,000	130,000

The following has been budgeted for the three months ending 30 September 2014:

Products	**E**	**K**	**S**
Sales – units	4,800	6,900	8,200
Selling Price per Unit – €	380	640	170

The variable costs per unit and the fixed overheads are expected to be the same as those for the three months ended 30 June 2014.

The company is also considering to start exporting its products and it has already received an order from a potential foreign customer for 2,000 units of product E at a selling price of €395. The order has to be satisfied in full, that is, partial completion of the order is not possible.

D-Decision Limited has a number of options available in order to meet this order:

1. Purchase additional machinery which would increase fixed costs by €48,000 every three months. Employees will have to work overtime to produce the extra 2,000 units, which will increase labour costs by €10 per unit.
2. Reduce the units of product E available for the local market by 2,000 units and sell these units to the potential foreign customer.
3. Buy the product from another manufacturer at the price of €335 per unit.

Required:

a. Prepare a profit statement per product and in total, for the three months ended 30 June 2104. **(4 marks)**

b. Prepare a profit statement per product and in total, for the three months ending 30 September 2014, assuming that the export order is **not** accepted. **(4 marks)**

c. For each of the three options, calculate the effect on profit if the export order is accepted **and** write a short report highlighting the most profitable option, explaining its advantages and disadvantages. **(10 marks)**

d. Briefly explain whether the company should continue to produce product S. **(6 marks)**

Question 4

Sharpie Ltd provides high quality maintenance on small and medium sea vessels. The Strip section is where the preparatory work is carried out, while all other maintenance work is performed in the Paint section. The department overseeing all other work related to the company is known as the Joint section. The costs to run the Joint section are allocated to the production sections according to labour hours.

The budget for the financial period ended 30 June 2014 included the following overheads:

	€'000
Indirect wages	1,200
Depreciation of machinery	780
Insurance of machinery	360
Insurance of buildings	1,404
Rent	351
Electricity	2,800

Other budget data is as follows:

	Strip	**Paint**	**Joint**
Number of employees	40	15	5
Electricity units	150,000	400,000	10,000
Floor area (m^2)	30,000	40,000	200
Machinery cost €'000	10,000	30,000	-
Machine hours	125,000	250,000	-
Labour hours	103,200	51,800	-

The actual performance for the period just ended on 30 June 2014 shows the following information:

	Strip	**Paint**
Total overheads	€ 2,461,000	€ 4,568,000
Machine hours	134,375	245,000
Labour hours	113,520	59,570

Required:

a. Calculate budgeted overhead absorption rate for the two production sections, using the most appropriate basis, for the budget period ended 30 June 2014. **(12 marks)**

b. Calculate the over or under absorbed overheads for each department. **(6 marks)**

c. Briefly describe what causes over/under absorption **and** list two factors that are considered when deciding the basis of an overhead recovery rate. **(6 marks)**

Question 5

During the last financial period, **Skiff plc** manufactured and produced 6,500 units of its product. The newly appointed CEO called a strategy meeting to review the current results and to discuss changes in the face of increasing competition. The following mutually exclusive suggestions were put forward.

Suggestion 1
The sales director proposed an increase of 40% in the number of units sold which she is confident could be achieved if the selling price is reduced by 10%. The study carried out showed that higher sales volumes will reduce the direct material cost per unit by €10.00 per unit. Direct labour per unit is expected to be €2.50 per unit higher due to overtime costs. The higher volume of production will also push up factory fixed costs by €20,000 and marketing and distribution costs by €10,000.

Suggestion 2
A second option, also presented by the sales director, focused on overseas sales which she said could be increased by 1,000 units as a direct result of a marketing campaign which would cost €50,000. Sales abroad attract higher administration costs and the current expense would go up by 5% while variable overhead per unit is expected to increase by €1.50.

Suggestion 3
The chief executive would like to double the current profit. Discussions with suppliers aimed to decrease the material cost per unit by 5% are almost finalised. Shutting down one of the warehouses should result in fixed cost savings of €20,000 His suggestion to participate in a trade fair should increase sales by 2,000 units. Stand rental and other set up costs amount to €42,000 while a one-time bonus of €150,000 will be paid to the salespersons.

The following data relates to the period just ended:

Per Unit	**€**
Selling price	600
Direct material cost	220
Direct labour cost	170
Other Variable cost	90

Other fixed costs incurred were as follows:

	€
Factory overheads	268,000
Administative costs	225,600
Marketing and distribution expense	82,400

Required:

a. Prepare profit statements for the period just ended **and** for suggestions 1 and 2, clearly showing the contribution per unit in each case. **(8 marks)**
b. Calculate the selling price per unit that would need to be set in order to reach the target profit required by the chief executive in suggestion 3. **(6 marks)**
c. Calculate the break-even quantity in units of the past period and compare it with that of Suggestion 3. **(4 marks)**
d. Write a brief report commenting on the results obtained in (c) above. **(6 marks)**

Question 6

Runbo, a cleaning product for the local market**,** is manufactured in two processes: Process Run and Process Bo. The output of Process Run becomes the input of Process Bo, where other materials are added so that the output of Process Bo is transferred to finished stock.

The following information is available for the month of August 2014:

Process Run

Material A	12,000 kilogrammes at €1.20 per kilogramme
Labour	1,250 hours at €5.50 per hour
Overheads	€5,965
Normal Loss	10% of weight input
Output	10,600 kilogrammes
Sale of scrap	€0.20 per kilogramme

There was no work in process at the beginning or end of the month for Process Run.

Process Bo

Material B	10,200 kilogrammes at €1.75 per kilogramme
Packing Material	€695
Labour	900 hours at €6.25 per hour
Overheads	€6,465
Output	19,500 kilogrammes

There was no loss in Process Bo. There was no work in process at the beginning of the month for Process Bo but at the end of the month, the remaining items were complete as follows:

- 75% complete in so far as materials are concerned.
- 50% complete in so far as labour and overheads are concerned.

Packing material is added when units are 100% complete.

Required:

a. Prepare the Process Accounts, and the Abnormal loss or gain accounts. **(18 marks)**

b. Explain the differences between job costing and process costing. Give **two** examples of industries that use job costing and **two** industries that use process costing. **(6 marks)**