

AM 01/I.15m

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD  
UNIVERSITY OF MALTA, MSIDA  
MATRICULATION EXAMINATION  
ADVANCED LEVEL  
MAY 2015

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<b>SUBJECT:</b>	ACCOUNTING
<b>PAPER NUMBER:</b>	I
<b>DATE:</b>	4 <sup>th</sup> May 2015
<b>TIME:</b>	9.00 a.m. to 12.00 noon

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**Directions to Candidates**

Answer **ALL** questions in **SECTION A**.

Answer the question in **SECTION B**. **This question is compulsory.**

Answer any **TWO** questions from **SECTION C**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

**Section A: Answer ALL questions in this section. This section carries a total of 22 marks.**

**Question 1**

Identify THREE users of a company's financial statements and in each case briefly explain their interest in these statements. **(3 marks)**

**Question 2**

Briefly describe THREE differences between the roles of the Accountant and the Auditor in the financial reporting process of a company. **(3 marks)**

**Question 3**

- a) Name the different sections of the Statement of Cash Flows and briefly state what type of information each section provides to the users of financial statements.
- b) Give TWO reasons why the change in cash and cash equivalents during a financial period may differ from the reported profit of the same period.

**(4 marks)**

**Question 4**

- a) Describe how the profitability and efficiency of an entity's operation can be assessed using ratio analysis.
- b) Explain any relationship that can exist between profitability and efficiency.

**(4 marks)**

**Question 5**

- a) Explain the difference between research costs and development costs, highlighting the accounting treatment for each type of expenditure.
- b) Briefly describe the circumstances when development costs can be capitalised by a business.

**(4 marks)**

**Question 6**

- a) Give TWO reasons why manufacturing enterprises opt to cost finished goods at transfer prices.
- b) Explain how manufacturing profit on finished goods affects the overall profit of an enterprise.

**(4 marks)**

**Section B: Answer Question 7 in this Section. This question is compulsory and carries 26 marks.****Question 7**

JJ Chainlink Ltd extracted the following Trial Balance from its books at 31 December 2014:

	€	€
Share Capital (€0.50 nominal value per share)		800,000
Share Premium		40,000
Revaluation Reserve		100,000
Retained earnings		101,800
Interim dividend	80,000	
10% Loan		200,000
Inventories at 1 January 2014:		
Raw Materials	35,000	
Work-in-progress	18,000	
Finished goods	41,400	
Sales		959,400
Raw material purchases	210,000	
Factory Premises/Depreciation Allowance	720,000	61,200
Plant and machinery/Depreciation Allowance	630,000	260,200
Motor vehicles/Depreciation Allowance	210,000	82,000
Fixtures/Depreciation Allowance	84,000	37,900
Direct wages	140,000	
Factory indirect wages	75,000	
Administration salaries	42,000	
Selling and distribution costs	22,000	
Financial expenses	18,000	
Water and electricity	32,000	
Factory power	25,000	
Rent of office	35,000	
Returns inwards/Returns outwards	10,000	24,000
Motor expenses	17,300	
General office expenses	12,400	
Repairs to Plant and machinery	31,200	
Supervisors' wages	28,800	
Trade receivables	80,800	
Trade payables		34,500
Bank	93,700	
Insurance	14,800	
Provision for Unrealised Profit		5,400
	<b>2,706,400</b>	<b>2,706,400</b>

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Further information:

1. Inventories at 31 December 2014:

	€
Raw materials	51,400
Work-in progress	35,640
Finished goods	55,200

2. Finished goods are valued at manufacturing cost plus 15% manufacturing profit.

3. Provide for depreciation of non-current assets as follows:

Premises	2% of cost
Plant and Machinery	15% on cost
Motor Vehicles and Fixtures	30% on written down value

4. The manufacturing process is carried out from the factory premises acquired six years ago. The company values its premises according to the revaluation model of IAS 16. The original cost included €110,000 for land, which was revalued to €210,000 in 2010. The buildings were maintained at original cost in 2010. The revaluation is carried out every four years, and the latest architect's valuation, which was carried out in January 2014, amounted to €900,000, made up of €300,000 for land and €600,000 for buildings. The required adjustments in the books of JJ Chainlink Ltd have not been carried out.

5. Accruals as at 31 December 2014 were:

	€
Water and electricity	2,400
Supervisors wages	4,600
Rent	2,800

6. The insurance account includes the payment of an annual premium of €10,200 up to 31 January 2015.

7. The financial expenses relate to the loan interest. The loan was drawn down in 2010.

8. Factory overheads should include: 60% of motor vehicle expenses, including depreciation; 80% of insurance; and 40% of water and electricity.

9. The directors decided to create a General Reserve of €50,000.

**Required:**

- a) Show the Provision for Unrealised Profit Account of JJ Chainlink Ltd for the year ended 31 December 2014. **(4 marks)**
- b) Prepare a Profit Statement of JJ Chainlink Ltd for the year ended 31 December 2014, showing clearly the Prime cost, the Cost of manufactured goods, and the Net Profit. **(10 marks)**
- c) Prepare the Statement of Changes in Equity of JJ Chainlink Ltd for the year ended 31 December 2014 and the Statement of Financial Position as at end of year. **(12 marks)**

**Section C: Answer any TWO questions from this Section. Each question carries 26 marks.**

**Question 8**

John Fenders had his warehouse almost completely gutted by fire on 18 March 2015. Nevertheless, goods costing €1,450 were salvaged while another €760 worth of goods, though damaged, could be disposed of for €320. Fortunately, Fenders had records pertaining to sales and purchases on his laptop, but inventory records were almost completely ruined as these were kept in the warehouse. He needs to calculate the value of the goods lost in the fire for insurance purposes, and he furnishes you with the following data relating to the period 1 January 2015 to the date of the fire:

1. Purchase invoices totalled €117,200, of which €5,400 had been returned.
2. According to the bank paying in slips, €104,640 had been deposited in the bank account.
3. All amounts received were banked, with the following exceptions:
  - (i) Weekly payments of €60 to a cleaner. The cleaner was paid 10 times up to 18 March.
  - (ii) Monthly withdrawals of €650 for personal use effected on the last day of each month.
4. A receipt of €840 related to a customer account that had been written off as bad in previous years.
5. An amount of €7,410 had been allowed as discounts.
6. On the day of the fire, €16,400 were owed from debtors.
7. Fenders recalls that a long outstanding amount of €2,300 had been written off as a bad debt.
8. Records showed that an amount of €580 owed by a customer had been set-off against his account in the purchases ledger.
9. Goods at a selling price of €1,420 had been invoiced and paid for, but on the night of the fire, were still in the warehouse awaiting delivery. On the same day, purchases costing €2,800 were still in transit and had not reached the warehouse. The related purchase invoice had already been recorded.
10. Fenders had withdrawn goods for personal use totalling €360.
11. Returns in amounted to €5,750.
12. During the first week of January, goods with a sales value of €3,200 were donated to a fund-raising activity in Fenders' locality.

The financial statements for the year ended 31 December 2014 showed inventories of €14,320 and trade receivables of €9,600. The business operates at a uniform profit mark-up of 25%.

**Required:**

- a) Prepare the Sales Ledger Control Account of Fenders for the period 1 January to 18 March 2015. **(6 marks)**
- b) Estimate the value of goods destroyed by the fire to be claimed for insurance purposes, showing clear workings in as much detail as possible. **(16 marks)**
- c) Distinguish between the Purchases Day Book and the Purchases Ledger. **(4 marks)**

*Please turn the page.*

**Question 9**

On 1 April 2014, the Fairway Boating Club had 230 members on its books. This number includes 10 members who had joined a life membership scheme since it was introduced by the club two years ago. Members joining the scheme are required to make a once only payment of €320. The balance in the Life Membership Fund is recognised as income over a 10-year period.

At the beginning of the year, the other non-life members, except for 12, had paid their annual subscriptions of €40 up to 31 March 2014, while 8 had also paid their subscription for the year ending March 2015. The 12 members who had not paid the subscription due by 31 March 2014 were individually contacted and they promised to pay all amounts due to the club.

During the year ended 31 March 2015, 4 of the 12 members who had subscriptions in arrears at the beginning of the year, did not keep their promise to pay and were struck off the register. 15 new members joined the club, while another 8 joined the life membership scheme and paid the required amount.

On 31 March 2015, 6 members had paid subscriptions in advance for the following year while 16 others were still being expected to pay for the current year.

The following are the other receipts and payments of Fairway Boating Club during the year ended 31 March 2015:

	<b>Receipts</b>	<b>Payments</b>
	€	€
Bar Sales	12,750	
Competitions ticket sales	2,460	
Bar suppliers		8,360
Barman's remuneration		3,600
New sailing equipment		8,700
Rent		3,800
Electricity		2,760
Advertising		940
Competitions expenses		730

Details of the club's other assets and liabilities are as follows:

	<b>1 April 2014</b>	<b>31 March 2015</b>
	€	€
Sailing equipment	18,200	?
Bank	1,532	?
Trade payables for bar supplies	2,640	1,165
Bar inventories	795	1,056
Electricity accrued	430	550
Rent accrued	240	-
Rent prepaid	-	310
Life Membership Fund	2,880	?

It is the Club's policy to depreciate Sailing equipment at the rate of 10% on book value.

**Required:**

- a) Prepare the Subscriptions Account, the Life Membership Fund Account and the Bar Trading Account for the year ended 31 March 2015. **(10 marks)**
- b) Prepare the Income and Expenditure Account of the Fairway Boating Club for the year ended 31 March 2015 and the Statement of Affairs of the club as at that date. **(12 marks)**
- c) Describe TWO advantages for a club that operates a Life Membership Fund. **(4 marks)**

**Question 10**

The financial year end of Blue Tunoil Ltd is 30 June. The Board of Directors have prepared a draft Statement of Financial Position as at 30 June 2015.

**Draft forecast Statement of Financial Position as at 30 June 2015**

	€'000	€'000
<b>Non Current Assets</b>		
Goodwill	2,000	
Land and buildings	4,200	
Machinery and equipment	2,280	
Motor vehicles	1,340	
Research and Development	500	10,320
	<hr/>	
<b>Current Assets</b>		
Inventories	720	
Accounts receivable	820	
Prepayments	20	
Bank	40	1,600
<b>Total Assets</b>	<hr/>	<hr/> <b>11,920</b> <hr/>
<b>Equity</b>		
Ordinary share capital (€1 shares)	1,800	
Share premium	1,200	
Revaluation reserve	3,400	
Retained earnings b/f	1,600	
Draft Budgeted Profit for the year	3,000	11,000
	<hr/>	
<b>Current Liabilities</b>		
Accounts payable	820	
Accruals	100	920
<b>Total Equity and Liabilities</b>	<hr/>	<hr/> <b>11,920</b> <hr/>

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As the head of the Finance Department, you have been asked to confirm the forecast financial position. The Directors have given you the details of the main factors that they have taken into consideration when drafting the statement:

1. The directors had decided to recognise goodwill, which represents the additional value that they expect to receive if they had to sell the company as a going concern. They have prudently recognised this potential gain in the Revaluation Reserve.
2. A professional architect has revalued the premises of the company upwards by €1 million. Given that this is a material amount, the Directors decided to recognise this revaluation as income for the year.
3. The depreciation charge on machinery is €500,000 lower than the charge calculated according to the company's depreciation policy because the Directors consider that the extensive maintenance carried out this year on the machines has in fact increased their carrying value. The maintenance costs on the machines have also been capitalised as development expenditure, since these represent future savings.
4. According to the opinion of an esteemed car dealer, since the company has not purchased or sold any of its motor vehicles this year, the value of the motor vehicles owned by Blue Tunoil Ltd has not changed since the previous year. While Company policy is to depreciate motor vehicles at 20% using the reducing balance method, the Directors decided to comply with the opinion of the car dealer and not to charge depreciation on motor vehicles this year.
5. Dealings are ongoing with a major customer for a transaction with a sales value of €80,000. The customer is asking a discount of 10% but the agreement has not been finalised. The Directors have taken the prudent approach and recorded €72,000 to sales and bank. The standard 15% margin is expected as profit on this transaction.
6. Past trends show that 5% of the value of inventory at year end is written off due to the expiry dates. The budget closing inventory value has not taken this into consideration.
7. During the year, legal proceedings were instigated against a customer who owed the company €20,000. An allowance for this amount had been provided for in the previous year. This was reversed and the amount reinstated, pending the outcome of the court case.
8. The company had made a rights issue of 1 for every 5 shares held at a premium of €0.10 per share. The Directors consider the share premium collected as realised profits of the company.

**Required:**

- a) Prepare Journal entries that would be required to amend any of the Directors' accounting treatment of the factors revealed in the question and explain why each adjustment would be required. **(16 marks)**
- b) Prepare a Statement of Adjusted Budget Profit for the year. **(4 marks)**
- c) Prepare a revised forecast Statement of Financial Position as at 30 June 2015. **(6 marks)**



**Question 11**

The directors of Rubrail plc have prepared the following forecast Statement of Financial Position for 30 June 2015:

	€000	€000
<b>Non-current Assets</b>		
Freehold land		400
Other Property, Plant and Equipment	1,200	
Accumulated depreciation	(520)	
	<hr/>	680
		<hr/> 1,080
<b>Current Assets</b>		
Inventories	380	
Trade receivables	260	
	<hr/>	640
		<hr/> 1,720
<b>Equity</b>		
Ordinary shares of €0.50 each	600	
Retained earnings	410	
	<hr/>	1,010
<b>Long-term Liability</b>		
Loan 10%		180
<b>Current Liabilities</b>		
Trade payables	210	
Bank overdraft	320	
	<hr/>	530
		<hr/> 1,720

The company is making good returns on its investments and the directors plan to expand operations. To achieve this they have to acquire new and modern machinery, but their financial advisors recommend that the company should aim to reduce its borrowings by eliminating its overdraft and halving its long-term loan before embarking on the expansion project.

The directors discussed this advice and put forward the following suggestions:

1. Revalue freehold land to €600,000.
2. Reduce the credit period allowed to customers, thereby decreasing trade receivables by €120,000.
3. Without affecting the cost of goods sold or the level of trade payables, reduce purchases to effectively decrease inventories to €150,000.
4. Issue 5% debentures at par for €180,000 on 30 June 2015 and pay the long-term loan.
5. Using the retained earnings, make a bonus issue of 1 new share for every 3 shares in issue.
6. Follow the bonus issue by a rights issue of 1 share for every 4 at €0.60 per share.

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**Required:**

**Assuming that all the directors' suggestions will be implemented:**

- a) Prepare journal entries for suggestions No. 1, 4, 5 and 6 above. **(4 marks)**
- b) Present a revised Statement of Financial Position of Rubrail plc as at 30 June 2015. **(8 marks)**
- c) Identify the extent to which implementing these suggestions would meet the advice provided. **(4 marks)**
- d) Calculate the effect of the directors' suggestions on the gearing of the company, and explain the implications to the shareholders. **(6 marks)**
- e) Give TWO reasons why companies make bonus issues. **(4 marks)**

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<b>SUBJECT:</b>	ACCOUNTING
<b>PAPER NUMBER:</b>	II
<b>DATE:</b>	5 <sup>th</sup> May 2015
<b>TIME:</b>	9.00 a.m. to 12.00 noon

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**Directions to Candidates**

Answer **ALL** questions in **SECTION A**.

Answer any **THREE** questions from **SECTION B**.

You must show the working leading up to your answers.

Candidates may only use non-programmable calculators in this examination.

**Section A: Answer ALL questions in this section. This section carries a total of 22 marks.**

**Question 1**

Describe THREE ways how management accounting can be used as a tool by the management of a business. **(3 marks)**

**Question 2**

What is the meaning of an abnormal gain in process costing and how is it accounted for? **(3 marks)**

**Question 3**

“Both the firm and the employees should benefit from the introduction of an incentive scheme.”

- a) Give an example of an incentive scheme, and mention ONE benefit for the firm and ONE benefit for the employee.
- b) Highlight TWO disadvantages of incentive schemes.

**(4 marks)**

**Question 4**

- a) Why is it important to control inventory levels?
- b) State and briefly describe THREE types of costs that may arise when excessive stock is held.

**(4 marks)**

**Question 5**

A business produces three different types of products which use the same material. During the preparation of the budget, it is determined that the supply of material available 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 no stocks of finished goods are maintained. **(4 marks)**

**Question 6**

Describe the term 'Corporate Social Responsibility' and explain why businesses have a vested interest in embracing such a policy. **(4 marks)**

**Section B: Answer any THREE questions from this Section. Each question carries 26 marks.**

**Question 7**

Mr. Borg operates a manufacturing business by the name of BestJeans. The following is the Statement of Financial Position of BestJeans as at 31 December 2014:

	€	€
Non-current assets		
Property, plant and equipment		162,000
Current assets		
Inventories – Raw materials	32,000	
Inventories – Finished goods	24,310	
Trade receivables	338,500	
Other receivables – Office rent prepaid	<u>3,500</u>	
		<u>398,310</u>
<b>Total assets</b>		<b><u>560,310</u></b>
Capital		312,130
Current Liabilities		
Bank overdraft	136,780	
Trade payables	106,200	
Other payables – Showroom rent accrued	<u>5,200</u>	
		<u>248,180</u>
<b>Total equity and liabilities</b>		<b><u>560,310</u></b>

Mr. Borg has asked you to prepare the master budget for the three months ending 31 March 2015, and has given you the following information:

1. Production and sales in units are forecast to be:

	January	February	March
Production – units	19,000	21,750	17,600
Sales – units	17,250	19,500	20,520

2. The selling price per unit is forecast at €40.
3. Half of the sales are on a cash basis. 25% of the total sales revenue will be collected in the month following the sale and the remaining trade receivables are expected to be collected two months after the sale. Out of €338,500 trade receivables as at 31 December 2014, €108,500 relate to November 2014 sales. No bad debts are expected.

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4. Total Production costs per unit are forecast at €28, that is, €2 higher than the previous year. The raw materials used in production are forecast to be €16 per unit.

5. Purchases of raw materials are forecasted as follows:

January	February	March
€	€	€
284,600	407,240	366,480

Half of these purchases are paid for in the month in which they are made. The remaining half will be paid in the month following the month of purchase.

6. Production costs, other than the purchases of raw materials, are paid in the month that they are incurred.

7. The first-in first-out method is used for the valuation of inventory of finished goods.

8. Showroom rent and office rent are spread evenly over the year. Showroom rent increases by €3,600 per annum every year, and is paid monthly in arrears. Office rent is fixed for a number of years, and is paid monthly in advance.

9. Other administrative expenses (excluding rent and depreciation) are forecast at €42,500 per month and are paid in the month incurred.

10. Office equipment costing €13,600 will be bought on 1 January against a 25% deposit. The balance due will be paid in three equal monthly instalments. Depreciation on showroom/office equipment for the year of €17,560 is to be provided for.

11. Interest on bank overdraft of €25,520, representing the interest charge for the period January to March, is to be paid in March 2015.

12. Drawings by Mr. Borg are forecast at €14,000 per month.

**Required:**

- a) Prepare a monthly cash budget for the three months ending 31 March 2015. **(13 marks)**
- b) Prepare a budgeted Income Statement for the three months ending 31 March 2015 and a budgeted Statement of Financial Position as at that date. **(10 marks)**
- c) Briefly outline TWO objectives of budgetary control. **(3 marks)**

**Question 8**

A businessman decided to set up a factory in Malta, specifically to manufacture one particular product. A standard costing system was established and the standard cost figures for each unit are as follows:

Material per unit	2.8 kilograms at €15.00 per kg
Unskilled Labour Costs	10.5 hours at €6.20 per hour
Skilled Labour Costs	2 hours at €10.50 per hour
Selling price per unit	€285

Budgeted production and sales for the month of March 2015 was 14,880 units.

Fixed production overheads were budgeted at €595,200 for the month, and were absorbed on a direct labour hour basis.

Actual results for the month of March 2015 were as follows:

Units produced and sold	15,100
Materials – Total	€635,559 for 46,055 kilograms
Unskilled Labour Costs – Total	€979,839 for 155,530 hours
Skilled Labour Costs – Total	€360,135 for 33,970 hours
Fixed Production Overheads – Total	€599,770
Selling price per unit	€292

**Required:**

- a) Calculate the following variances for the month of March 2015:
  - i) The sales price variance and the sales profit volume variance;
  - ii) Total material variance analysed into price variance and usage variance;
  - iii) Total labour variance analysed into rate variance and efficiency variance, for both skilled and unskilled workers; and
  - iv) Total fixed production overhead variance analysed into expenditure and volume variance. **(14 marks)**
- b) Calculate the actual and budgeted profit for the month of March 2015 and prepare a statement reconciling the two profit figures. **(9 marks)**
- c) "The total material cost variance is small and insignificant, therefore, there is no need to investigate it." State whether you agree with this statement and give reasons for your answer. **(3 marks)**

*Please turn the page.*

**Question 9**

Sola Product Ltd produces and sells a single product. The original budgeted figures for the year ending 31 December 2016 are as follows:

Output (units)		23,000
	€	€
Sales		575,000
<i>Variable costs:</i>		
Direct materials	184,000	
Direct labour	115,000	
<i>Semi variable costs:</i>		
Production overheads	<i>Note 1</i>	100,000
Selling expenses	<i>Note 2</i>	100,000
<i>Fixed costs:</i>		
Administration overheads	29,800	
		<u>528,800</u>
Net Profit		<u>46,200</u>

**Note 1** Production overheads include a variable cost element of €2.30 per unit.

**Note 2** Selling expenses include a variable sales commission of €2.00 per unit.

The Board of Directors are considering the following four mutually exclusive proposals as possible variations of the 2016 budget:

- Proposal A: Reduce the selling price by 10%. This would increase the number of units sold by 20%, but requires an additional advertising campaign costing €10,000.
- Proposal B: This plan envisages the use of lower quality material resulting in cutting the cost of raw material by 5%. The number of units sold should increase by 5% if a promotion campaign is carried out. This campaign would increase fixed selling costs by 8%. The selling price per unit would remain unchanged.
- Proposal C: This proposal suggests that if the sales commission per unit is doubled, the number of units sold would increase by 10%. The selling price per unit and the budgeted fixed costs would remain unchanged.
- Proposal D: Cease production of the product and start buying it from a foreign manufacturer who would charge €18 per unit, including freight. It is estimated that 50% of budgeted administration overheads are related to production.



**Required:**

- a) Calculate the breakeven point in units and sales value for the original budget of 2016. **(3 marks)**
- b) Calculate the margin of safety in percentage terms from this information. **(2 marks)**
- c) Calculate the number of units that must be sold to achieve a profit of €55,000. **(2 marks)**
- d) Calculate the profit or loss arising from every proposal described in the question as possible variations of the original budget, and recommend which, if any, should be implemented. **(13 marks)**
- e) In the case of Proposal D, describe TWO other factors that should be taken into consideration by Sola Product Ltd. **(3 marks)**
- f) Break-even analysis assumes that variable costs and revenues are linear, and that fixed costs do not change with the level of output. Briefly explain why these assumptions may not be realistic. **(3 marks)**

**Question 10**

A Maltese audit firm forming part of an international network has been offered the opportunity to form part of a larger team for a specific large assignment to be performed in London. It is estimated that the assignment will take 16 weeks to complete and will require different grades of staff. The Maltese audit firm needs to determine the labour hour rate to be charged for each grade of staff. The following information is available:

1. The audit staff required for this assignment are 2 audit managers, 4 assistant audit managers and 10 audit clerks, all of which are considered as direct labour costs. It also requires 2 support staff whose salaries are considered as an indirect cost.
2. The normal working week of each employee is a 40-hour week over five working days. During the assignment abroad, all grades of employees are expected to work 45 hours per week by working one extra hour each working day. It is the firm's policy not to pay overtime, however, an exception will be made for this job and all grades of employees will be paid overtime at the rate of 1.5 times the normal rate.
3. The annual gross basic salaries of each grade of employee are as follows:

Grade	Gross basic salary
	€
Audit manager	35,360
Assistant audit manager	29,120
Audit clerk	20,800
Support staff	18,720

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4. A statutory annual bonus of €520 is payable to each employee.
5. The firm pays national insurance contribution at the rate of 10% of the gross basic salaries (excluding bonus and overtime).
6. During their stay in London, each employee will be entitled to 8 days of leave. In addition it is estimated that each employee will take 4 days of sick-leave.
7. The employees will be entitled to a daily allowance for all of the duration of their stay in London, including weekends, amounting to €120 per day to cover such costs as lodging and travel.
8. The firm will pay a one-time bonus to every employee at the end of their job as follows:

Grade	Bonus
	€
Audit manager	4,685
Assistant audit manager	3,431
Audit clerk	2,681
Support staff	1,996

9. The salaries of the support staff are to be included in the recovery rates of the direct auditing staff as follows:

Grade	
Audit manager	10%
Assistant audit manager	20%
Audit clerk	70%

10. Assume 52 weeks in one year.

**Required:**

- a) Calculate the labour hourly cost incurred by the Maltese audit firm for each grade of auditing staff. **(20 marks)**
- b) Calculate the labour hourly rate to be quoted for each grade of audit staff assuming a profit margin of 20%. **(3 marks)**
- c) Briefly discuss TWO costs and TWO causes of labour turnover. **(3 marks)**

**Question 11**

NCM Limited started operating a manufacturing concern on 1 January 2012. The company is experiencing liquidity problems and has approached a local bank to provide the necessary financing. In order to provide the financing required, the bank has asked for profit statements for the past three years.

The following information is available for the first three years of operations:

	2012	2013	2014
	€	€	€
Direct materials per unit	32	34	35
Direct labour per unit	48	50	52
Variable overheads per unit	14	14	15
Fixed factory overheads	153,000	182,900	236,300
Selling and administration expenses	32,600	35,900	42,300

Units produced and sold during the three years were as follows:

	2012	2013	2014
Sales – Units	9,800	10,900	14,100
Production – Units	10,200	11,800	13,900

The selling prices were as follows:

	2012	2013	2014
	€	€	€
Selling price per unit	120	125	130

**Required:**

- a) Calculate the cost per unit for the past three years using:
  - i) Marginal costing approach to valuing inventory;
  - ii) Absorption costing approach to valuing inventory. **(6 marks)**
- b) Assuming that NCM Ltd uses the first-in first-out method of inventory valuation, prepare statements of profit/loss for the past three years using:
  - i) Marginal costing approach to valuing inventory;
  - ii) Absorption costing approach to valuing inventory. **(12 marks)**
- c) Prepare a statement reconciling the two profit figures calculated for every year, explaining clearly the meaning and calculation of the differences. **(5 marks)**
- d) The bank requires profit statements to comply with International Financial Reporting Standards (IFRS). Which method of costing approach to inventory valuation (marginal and absorption) would be acceptable to the bank? Why? **(3 marks)**