



SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	7 th September 2020
TIME:	4:00 p.m. to 7:05 p.m.

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

Section A

Answer all **FIVE** questions in this section. Each question carries 4 marks.

Section B

Answer question 6. **This question is compulsory** and carries 30 marks.

Section C

Answer any **TWO** questions from this section. Each question 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 **ALL** questions in this section. This section carries a total of **20** marks.

- What is the difference between a bonus issue, a rights issue and a public issue of shares? (3)
 - Describe **ONE** reason why a listed company may decide that a bonus issue of shares would be more advantageous than other types of issues. (1)
- Distinguish between a private company, a public company and a listed company. (4)
- Briefly describe the main sections of the Statement of Cash Flows and explain the objective of such a statement. (4)
- According to the IASB's Conceptual Framework, the objective of a set of financial statements is to provide information to aid decision making. Describe **TWO** qualitative characteristics that the information in the financial statements should have in order to achieve this objective. (4)
- Provide **ONE** example that illustrates how a business acts as a collector of value added tax on behalf of the Commissioner for Revenue. (4)

(Total: 20 marks)

Questions continue on next page

SECTION B

Answer Question 6 in this section. This question is compulsory and carries 30 marks.

6. Mrs Alexia Jones is the owner of Scuba Manufacturing. The following balances were extracted from the books on 31 December 2019:

	€	€
Sales		490,000
Raw material purchases	195,000	
Carriage in	3,300	
Carriage out	5,400	
Returns in	8,200	
Returns out		11,400
Warehouse rent	7,800	
Discount Allowed	9,600	
Discounts Received		12,300
Inventories: Raw Material	18,600	
Finished goods	27,500	
Work-in-progress	7,200	
Motor Vehicles (at cost)	84,500	
Plant & machinery (at cost)	180,000	
Office equipment (at cost)	16,000	
Accumulated Depreciation:		
Motor vehicles		28,000
Plant & machinery		38,500
Office equipment		9,400
Loose tools	9,200	
Direct wages	55,000	
Factory indirect wages	14,600	
Salaries	19,200	
Factory maintenance	12,600	
Electricity	16,900	
Insurance	8,500	
Premises rent	32,000	
Administration expenses	18,400	
Marketing expenses	21,300	
Trade receivables	24,200	
Trade payables		15,300
Cash	8,945	
Bank	31,525	
Capital		150,000
Drawings	21,300	
5% loan		100,000
Interest paid on loan	2,500	
Allowance for doubtful debts		1,870
Provision for unrealised profit		2,500
	859,270	859,270

Consider the following information:

- a) Manufactured products are transferred to finished goods at cost plus 10%.
- b) Inventories on 31 December 2019 were valued as follows:

Raw Materials	€24,800
Finished Goods	€31,350
Work-in-Progress	€13,055
- c) Loose tools at the year-end were valued at €7,600.
- d) Annual depreciation is to be provided for as follows:

Plant and Machinery	10% of original cost
Motor Vehicles	30% on written down value
Office equipment	25% of cost
- e) An invoice for €6,500 relating to new parts for a motor vehicle was posted to purchases of raw material.
- f) The motor vehicles are used for production purposes, however, Mrs Jones estimates that 10% of motor vehicle expenses were for her personal use.
- g) The warehouse is used to store raw materials and finished goods in the ratio 1:2, respectively. Warehouse rent is payable quarterly in advance on 1 February, 1 May, 1 August and 1 November. The rent per annum is subject to revision every five years, and was last revised in 2017.
- h) The Insurance account includes the payment of an annual premium amounting to €3,000 covering the period 1 July 2019 to 30 June 2020.
- i) Accrued electricity amounted to €2,800, and factory indirect wages due were €3,500.
- j) The following expenses are to be apportioned as indicated:

	<i>Manufacturing</i>	<i>Administration</i>
Insurance	60%	40%
Premises rent	80%	20%
Electricity	50%	50%

- k) The allowance for doubtful debts of €1,870 as shown in the trial balance relates to one specific debt. Negotiations to arrive at a settlement have failed and it has been decided to write off this amount.
- l) During the year, Mrs Jones had taken raw materials amounting to €1,200 for personal use.

Required:

Prepare the following statements of Scuba Manufacturing for the year ended 31 December 2019:

- A. The Manufacturing Account and the Statement of Profit and Loss; (18)
- B. The Statement of Financial Position. (12)

(Total: 30 marks)

Questions continue on next page

SECTION C

Answer any TWO questions from this section. Each question carries 25 marks.

7. The following information relates to the Dinghy Enthusiasts' Club, which is in the process of preparing its accounts for the year ended 31 December 2019.

On 31 December 2019, the club had 130 members on its register.

The annual subscription fee is €60, payable at the beginning of each year.

On 1 January 2019, 12 members had not yet paid their 2018 subscription; while 10 had already paid their 2019 subscription in advance. Of the 12 members who were in arrears, 3 never paid their 2018 subscription and were struck off the members' register on 1 December 2019.

18 members included in the register had not yet paid the 2019 subscription, while 9 had paid subscriptions for both the current year and also for the following year ending 31 December 2020.

The Dinghy Enthusiasts' Club operates a life membership scheme against a one-time payment of €500. Fees received under this scheme are recognized over a 10-year period. The scheme started in 2017 with 10 members. 7 members joined the scheme during 2018, while another 8 joined during the current year ended 31 December 2019. Life members are included in the club's register.

Apart from the above, other receipts and payments were as follows:

Receipts	€	Payments	€
Bar takings	15,300	Insurance	1,200
Donations (revenue)	840	Transport for competitions	1,640
Tickets for competitions	4,700	Repairs to premises	960
		Bar purchases	6,650
		Trophies and medals	1,100
		Printing & stationery	620
		Barman's wages	3,600
		Licences	4,200
		New equipment	3,800

The club organises dinghy sailing competitions on a regular basis, and, apart from the expense for transport, trophies and medals shown in *Payments* above, it also provides refreshments, which were taken directly from bar stock. The cost of refreshments related to the competitions was €560.

Equipment is depreciated at 20% of its book value.

Further information:

	1 January 2019	31 December 2019
Equipment	21,800	?
Bar Inventories	1,260	860
Bar payables	750	1100
Trophies at cost	850	590
Wages owing: Barman	360	480
Bank (<i>Dr. balance</i>)	1,490	?

Required:

- A. For the twelve months ended 31 December 2019, prepare for Dinghy Enthusiasts' Club:
- i. The Subscriptions Account and the Life Membership Fund Account. (4)
 - ii. The Bar Trading Account and the Competitions Account. (3)
 - iii. The Income & Expenditure Account. (6)
 - iv. The Statement of Financial Position as at 31 December 2019. (8)
- B. Very often, members make voluntary donations to clubs. These might consist of cash and perishables or equipment considered as non-current assets. Give a brief explanation of the difference in the accounting treatment of the two. (4)

(Total: 25 marks)

Questions continue on next page

8. Bayes Limited is a manufacturer of high quality garments sold in stores nation-wide and has experienced reasonable growth over the last year. A substantial capital injection was made during 2019, via new shares and debentures, in view of plans to expand the operations of the company. As a Director of Bayes Limited, you are currently analysing the Company's financial statements to be able to report on the company's financial performance, efficiency and solvency to your fellow directors at the next meeting. The following financials are available:

<u>Statement of Profit and Loss</u>	2019		2018	
	€	€	€	€
Turnover		2,025,000		1,350,000
Cost of Sales		1,157,100		900,000
Gross Profit		<u>867,900</u>		<u>450,000</u>
Administrative Expenses	158,000		158,000	
Finance Costs	<u>108,000</u>		<u>12,500</u>	
		<u>266,000</u>		<u>170,500</u>
Profit Before tax		601,900		279,500
Income tax Expense		<u>210,665</u>		<u>97,825</u>
<u>Profit for the Year</u>		<u>391,235</u>		<u>181,675</u>

Statement of Financial Position	2019		2018	
	€	€	€	€
ASSETS				
<u>Non-Current Assets</u>				
Property Plant and Equipment		1,910,000		500,000
<u>Current Assets</u>				
Inventories	35,000		175,000	
Trade Receivables	130,000		50,000	
Cash and Cash Equivalents	80,235		37,500	
		245,235		262,500
Total Assets		2,155,235		762,500
EQUITY AND LIABILITIES				
<u>Equity and Reserves</u>				
Ordinary Share Capital (€1 Nominal Amount)		600,000		400,000
Retained Earnings		421,235		30,000
		1,021,235		430,000
<u>Non-Current Liabilities</u>				
Debentures	900,000		125,000	
Loan	105,000		155,000	
		1,005,000		280,000
<u>Current Liabilities</u>				
Trade Payables	75,000		46,250	
Interest Payable	54,000		6,250	
		129,000		52,500
Total Equity and Liabilities		2,155,235		762,500

Required:

- A. Prepare a short report, analysing how the financial position and performance of Bayes Limited has developed from 2018 to 2019. Your report should contain the following sections, containing the relevant accounting ratios and respective analyses of these ratios:
- Profitability considerations (3 ratios);
 - Liquidity considerations (3 ratios);
 - Capital structure, solvency and shareholder return (3 ratios); and
 - Efficiency (1 ratio). (20)
- B. A fellow Director has had a look at your analysis and asked why you have analysed both the Company's Liquidity and Solvency Ratios. Define what is meant by both the Liquidity and Solvency of a company, and outline **ONE** reason why you think that both need to be analysed. (5)

(Total: 25 marks)**Questions continue on next page**

9. You are currently preparing to close off the year-end financial statements of Euler Ltd, a company that develops specialised software solutions. You have been provided with the following draft Statement of Financial Position and Statement of Profit and Loss and Other Comprehensive Income for 2019:

Euler Limited
Statement of Financial Position as at 31 December 2019

<u>ASSETS</u>	€	€	€
<u>Non-Current Assets</u>			
Property Plant and Equipment			1,009,530
Research Costs			150,000
Software Development Costs			365,000
			1,524,530
<u>Current Assets</u>			
Trade Receivables		112,000	
Other Receivables		6,000	
Cash and Cash Equivalents		135,470	
			253,470
Total Assets			<u>1,778,000</u>
<u>EQUITY AND LIABILITIES</u>			
<u>Equity and Reserves</u>			
Ordinary share Capital			800,000
Retained Earnings			164,000
			964,000
<u>Non-Current Liabilities</u>			
3% Loan payable		490,500	
<u>Current Liabilities</u>			
Trade payables	163,500		
Other payables	5,000		
Provisions	65,000		
Final proposed dividend	90,000		
Total Current Liabilities		323,500	
			814,000
Total Equity and Liabilities			<u>1,778,000</u>

Euler Limited		
Draft Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2019		
	€	€
Revenue		1,568,000
Cost of Sales		(627,200)
		940,800
Research Costs	140,000	
Selling and Distribution Expenses	17,000	
Administration Expenses	66,000	(223,000)
		717,800
Finance Charges		(14,715)
Profit for the year		703,085
Total Comprehensive Income		703,085

Following an internal review by your manager and the accounting team discussion, the following has come to light after preparing the above drafts:

- a) On 13 December 2019, the civil court ruled in partial favour of Euler Limited, in respect of a case brought against it by one of its customers. The company had last year provided for the full amount of €65,000, based on their lawyer's best estimate, as reflected in the draft balance sheet. The court ruled that Euler Limited was sentenced to pay €15,000 only in respect of this case. The customer is not expected to appeal from this decision. The final amount due as per the court decision was still unpaid as at 31 December 2019.
- b) Two large customers, who in total owe €32,000, operate in a sector that is facing an economic downturn. Expected losses on these amounts are estimated at €11,200, but have not yet been considered in the draft statements above.
- c) It is Euler Limited's policy to amortise Intangible Assets over a 5 year-period, using the straight line method, and to test for impairment annually. No adjustments for amortisation have been reflected in the draft statements as at 31 December 2019.
- d) Research costs of €150,000 shown in the above draft statement of financial position, pertain to experimental investigations into new block chain software. However, as at 31 December 2019, the developers advised the director that the project is still in its initial experimental stages and it is uncertain whether the outcome of this project will render any cash flows to Euler Limited in the foreseeable future.
- e) The development costs of €365,000 were incurred during 2019. The amount includes €80,000, for which the recoverable amount was established at €50,000 by technical experts.
- f) Office Fittings are valued under IAS 16's (Property, Plant and Equipment) cost model, adopting the straight line method at the percentages detailed in the below table. On the other hand, computer equipment is depreciated using the reducing balance method at the rate shown in the below table.

Question continues on next page

- g) The Company adopts IAS 16's revaluation model to value its land and buildings. Land is not depreciated but buildings are depreciated at 5% per annum using the straight line method. On 1 January 2019, Land and Buildings were revalued to €450,000 and €80,000, respectively, but were not adjusted for as at 31 December 2019.

It is the company's policy that a full year's depreciation is charged in the year of acquisition and none in the year of disposal.

<u>Non-current asset</u>	<u>Date of Purchase</u>	<u>Cost €</u>	<u>Depreciation Rate {p.a.}</u>
Office Fittings	01/01/2017	35,000	25.00%
Computer Equipment	01/01/2018	900,000	33.33%
Land	01/01/2017	320,000	<i>not depreciated</i>
Buildings	01/01/2017	80,000	5.00%

No Depreciation Adjustments for the year 2019 have been made in the draft statements.

- h) The dividend included in the above Statement of Financial Position was proposed by the Board of Directors on 31 December 2019.

Required:

- A. Prepare a revised Statement of Profit and Loss and Other Comprehensive Income for Euler Limited for the year ended 31 December 2019, taking into account the considerations (a)-(h) above. *Published Accounts as per IAS 1 Presentation of Financial Statements are NOT required. Ignore Taxation.* (10)
- B. Prepare a revised Statement of Financial Position as at 31 December 2019. *Published Accounts as per IAS 1 are NOT Required.* (10)
- C. After the accounts for 2019 are finalised, the Directors of Euler Limited are considering revising their accounting policies and estimates. In particular, they are concerned that the 5-year period over which Intangible assets are amortised might be too prudent, and are considering a 7-year period instead. Briefly outline how Euler Limited would account for this change in line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* (5)

(Total: 25 marks)



SUBJECT:	Accounting
PAPER NUMBER:	II
DATE:	9 th September 2020
TIME:	4:00 p.m. to 7:05 p.m.

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

Section A

Answer **ALL** questions in this Section. Each question carries 4 marks.

Section B

Answer question 6. **This question is compulsory** and carries 30 marks.

Section C

Answer any **TWO** questions from this Section. Each question 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 ALL questions in this section. This section carries a total of 20 marks.

1. With reference to IAS 2 Inventory:
 - a) Identify **TWO** cost elements that could be included as part of the cost of inventory, and **TWO** cost elements that should not be included. (2)
 - b) Define net realisable value of inventory, and explain the accounting treatment when the net realisable value of inventory differs from its original cost. (2)
2. Provide **TWO** reasons why overhead absorption rates are calculated from budgeted figures. (4)
3.
 - a) Briefly describe the circumstances that determine whether a firm should adopt job costing and when it is appropriate to use process costing. (3)
 - b) Provide **TWO** examples of industries that would use job costing and **TWO** others that would use process costing. (1)
4. Define the terms 'break-even point' and 'margin of safety'. Illustrate your answer by drafting a break-even chart. (4)
5.
 - a) Explain what gives rise to a total direct material cost variance and state how it is analysed. (3)
 - b) Describe **TWO** situations that may result in an adverse total direct material cost variance. (1)

(Total: 20 marks)

SECTION B

Answer Question 6 in this Section. This question is compulsory and carries 30 marks.

6. Since a very young age, Elisa Cachia has been fascinated by the art of knitting and has always been complimented for her work. Elisa would like to start selling her knitted products as from October 2020. She has requested your assistance to provide her with projections on the cash requirements based on the following information:
- In September 2020, Elisa plans to withdraw €1,000 from her personal savings account to invest in the new venture.
 - Elisa plans to kick start her business by selling hand knitted blankets. In 2021, she plans to introduce other knitted products. Monthly sales in number of blankets have been forecasted as follows:

	October 2020	November 2020	December 2020	January 2021
No. of blankets	20	40	70	80

- Elisa will be selling blankets to both retail outlets and individual customers. 40% of the sales will be to retail outlets. Half of the sales revenue from the retail outlets is expected to be received during the month the blankets are sold, whilst the remaining 50% will be received in 2 months' time. Individual customers are expected to pay cash and will benefit from a 10% cash discount.
- Elisa estimates that she will require 6 balls of 100% cotton Cestari yarn per blanket, costing €4 per ball of yarn, various haberdashery items costing €2 per blanket and €0.50 of packaging material per blanket. Elisa sets the selling price at a gross profit mark-up of 30%, assuming that material, haberdashery and packaging material are the only costs of production.
- At the beginning of October, Elisa shall receive sufficient material to be able work on the October orders and 20% of the following month`s orders. At the end of each month, she plans to have sufficient stock to cover 20% of the following month`s orders. Elisa estimates that she will pay 25% of the purchases on delivery, whilst the remainder during the month following the purchase.
- Elisa will work from her house. However, she forecasts that, in October, she will be incurring an additional €50 in electricity bills. It is estimated that this extra electricity expense shall increase by 10% every month. The utilities bill is received every two months and is payable one month in arrears. In October 2020, Elisa shall pay the last utilities bill received in September 2020, which covered the period July and August 2020.
- Most of the sales will come through the website, which Elisa will launch for this purpose. She will engage a third party to set up the website for a total cost of €350. She has been requested to pay a deposit of 20% on confirmation in September 2020, whilst the remainder will have to be settled once the website is up and running in October 2020. Web maintenance fees are expected to amount to €20 per month, payable one month in advance starting from the date on which the website goes live. Elisa thinks that the website would need to revamped after two years.

Required:

- Prepare a monthly cash budget for the **THREE** months ending 31 December 2020. (17)
- Draft a projected Statement of Profit and Loss for the same three-month period and a budgeted Statement of Financial Position as at 31 December 2020. (13)

(Total: 30 marks)

SECTION C

Answer any TWO questions from this Section. Each question carries 25 marks.

7. Inhaffu Limited manufactures three products for the local market, namely, products A, B and C. The company is undergoing a restructuring process and one of the items being discussed is the introduction of an incentive scheme for its factory workers. The factory employs an average of 400 workers, and in the previous financial year, 80 workers left the factory to find alternative employment.

The following information is available for four of the factory’s employees during the first week of March:

Employee	Bean	Dean	Jean	Sean
Actual hours of work – Hours	39	38	40	37
Hourly rate of Pay - €	8.50	6.00	7.50	11.00
Units produced – A	110	-	240	200
- B	145	-	150	300
- C	84	110	-	-

For piecework purposes, the rate of pay is €9 per standard hour of production. The standard time allowed per unit is as follows:

Product	A	B	C
Minutes	3.00	6.00	15.00

Required:

- A. Calculate the gross wages for **each** employee during the first week of March, using the following methods of labour remuneration:
- i) Hourly rate (Basic Salary);
 - ii) Piecework (Flat Piece Rate System);
 - iii) Piecework with remuneration guaranteed at 90% of the basic salary; and
 - iv) Basic salary plus an individual bonus calculated at 50% of the time saved. (16)
- B. Calculate the labour turnover rate of Inhaffu Ltd. (4)
- C. Comment on the labour turnover rate of Inhaffu Ltd, describing **FOUR** ways how a high labour turnover may impact the company. (5)

(Total: 25 marks)

Questions continue on next page

8. Sports Limited is a company manufacturing and exporting table-tennis rackets. It commenced its operations on 1 January 2017. Investment in new machinery is needed to meet the ever-increasing demand for the company's product. In order to determine the extent of financing required, the profit statements for the past three years were analysed.

The following costs were incurred during the past three years:

Year	2017	2018	2019
	€	€	€
Direct Materials	264,000	288,100	367,200
Direct Labour	246,400	258,000	316,200
Variable Overheads	114,400	116,100	142,800
Fixed Factory Overheads	140,800	141,900	147,900
Selling and Marketing Expenses	22,000	42,000	64,000
Administration Expenses	28,000	35,200	41,500

Production and sales were as follows:

Year	2017	2018	2019
Sales – Units	7,600	8,700	9,900
Production – Units	8,800	8,600	10,200

The selling price of the table-tennis rackets was increased each year to meet the rise in costs. Despite the higher price, the quality of the product and increase in marketing expenditure still resulted in an increase in sales quantity. Selling prices were as follows:

Year	2017	2018	2019
	€	€	€
Selling Price per Unit	110	114	120

Sports Limited absorbs overheads using a rate per unit. Assume that budgeted production units per annum were equal to actual units produced each year; and that there were no variances between budgeted and actual overheads.

Sports Limited uses the first-in first-out (FIFO) method of inventory valuation.

Required:

- A. Calculate the production cost per unit for the past three years using:
 - i) Marginal costing;
 - ii) Absorption costing. (6)
- B. 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. (8)
- C. Prepare a reconciliation of the marginal costing profit with the absorption costing profit for each year. (6)
- D. Using the figures obtained above, briefly explain the reasons giving rise to the difference in profits. (5)

(Total: 25 marks)

9. Three Limited manufactures three products, namely, Product One, Product Two and Product Three. The following information is available for the next financial year:

Product	One	Two	Three
Sales – Units	7,200	1,800	3,800
	€	€	€
Selling Price per Unit	19.50	38.00	14.25
Unit Cost:	€	€	€
Direct Materials	1.50	5.90	1.25
Direct Labour	5.75	7.25	4.00
Variable Overheads	3.00	3.50	1.80

The following fixed costs are expected to be directly incurred for each product:

Product	One	Two	Three
	€	€	€
Fixed Costs	2,600	3,100	1,900

General fixed costs per annum amount to € 38,000.

Infinite Limited, another company manufacturing the same products, has approached Three Limited and is offering to supply all three products at the following prices per unit:

Product	One	Two	Three
	€	€	€
	11.00	20.00	7.00

Required:

- As the company’s advisor, identify which products the company should produce and which products it should buy ready-made. (6)
- Prepare a profit statement for the next financial year assuming the company manufactures all products. (4)
- Prepare a profit statement for the next financial year if your advice in (A) is accepted. (4)
- Infinite Limited is offering a discount of 5% on the quoted prices should Three Limited buy all three products. Prepare a profit statement should the company accept the offer to purchase all the three products at the discounted price. (6)
- Compile a report advising on the best course of action for Three Limited, and state what other considerations management must take into account in reaching its decision. (5)

(Total: 25 marks)