



SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	14 th December 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. Explain the difference between a provision and a contingent liability and outline their accounting treatment. (4)
2. a) Briefly explain the terms 'Memorandum of Association' and 'Articles of Association'. (2)
b) What is the difference between limited and unlimited liability? (2)
3. Define the following accounting concepts:
a) Business entity concept. (2)
b) Matching concept. (2)
4. "There are no adding mistakes in a computerized accounting system, and the double entry is always complete. The trial balance always balances and, therefore, there is no need to check for errors." Comment on this statement and list **FOUR** errors that do not affect the Trial Balance. (4)
5. Identify **FOUR** types of users of financial statements, and explain why **EACH** type would be interested in these reports. (4)

(Total: 20 marks)

SECTION B

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

6. You are preparing the financial statements of Parakeet p.l.c for the year ended 31 December 2019. You have been provided with the following trial balance:

Trial Balance as at 31 December 2019		
	DR	CR
	€	€
Freehold Premises (Cost/Depreciation allowance)	820,000	246,000
Office Furniture (Cost/Depreciation allowance)	48,000	19,200
Motor Vehicles (Cost/Depreciation allowance)	197,000	129,309
Development costs	170,000	
Inventory	165,000	
Trade receivables	91,000	
Allowance for expected credit losses		4,200
Other receivables	15,000	
Cash at bank	90,000	
Trade payables		93,000
5.25% Loan		90,000
3.25% Debentures		100,000
5% Redeemable preference shares		100,000
Ordinary Share Capital (€1 Nominal value)		200,000
Share premium		80,000
General reserve		95,000
Retained earnings		62,000
Sales		925,000
Purchases	370,000	
Returns	15,000	12,000
Water and electricity	7,900	
Legal fees	5,000	
Selling and distribution costs	69,000	
Wages and salaries	54,000	
Directors' remuneration	5,000	
Administration expenses	44,000	
Motor vehicles repairs	21,809	
Suspense		32,000
	2,187,709	2,187,709

Additional information:

- a) The suspense account was used to complete the double entry of the following transactions, since only the entries in the bank account were recorded:
- i) On 1 July 2019, Parakeet p.l.c redeemed 50,000 of its redeemable preference shares at their nominal amount, and settled the related fixed dividend payment of 5% per annum.
 - ii) On the same date, the company made a rights issue of 60,000 ordinary shares at a price of €1.35 per share.
 - iii) On 1 October 2019, the company received €2,250 from a client who owed €4,200. The balance on this client's account was considered doubtful the previous year and an allowance for the full amount had been made. The directors confirmed that the remaining balance as at 31 December 2019 shall not be recovered and is to be written off.
- b) The value of the closing inventory as at 31 December 2019 was €126,000.
- c) Development costs of €170,000 shown in the above trial balance were capitalised in 2019. They relate to a new product Parakeet p.l.c plans to launch. These costs are to be amortised over 5 years.
- d) The above trial balance does not reflect the fact that an architect had revalued the Freehold premises to €700,000 at the beginning of 2019. The company depreciates freehold premises at 2% per annum, whilst office fittings are depreciated using a useful life of 10 years; both on a straight line basis. Motor vehicles are depreciated using the reducing balance method at 12.5% per annum.
- e) The Directors of Parakeet p.l.c had declared a final dividend of €0.20 per ordinary share. This was approved by the shareholders on 15 December 2019, but is still unpaid as at year end.
- f) As at 31 December 2019, €2,500 of legal fees included in the above trial balance pertained to services rendered in 2020; whilst €2,000 for Audit fees relating to 2019 were still not invoiced as at year end.

Required:

- A. Prepare a Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2019. (14)
- B. Prepare a Statement of Changes in Equity for the year ended 31 December 2019. (6)
- C. Prepare a Statement of Financial Position as at 31 December 2019. (10)

(Total: 30 marks)

Please turn the page

SECTION C

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

7. The accounting team of Piewie Limited are closing off their financial year and are currently finalising their Non-Current Asset values for the year ended 30 September 2020. The following information has been made available:

Property Plant & Equipment	Balances as at 1 October 2019		
	Cost/Revalued Amount	Accumulated Depreciation	Net book value
	€	€	€
Land & buildings	900,000	-	900,000
Machinery	390,000	162,500	227,500
Motor vehicles	98,000	37,000	61,000

It is the company's accounting policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal. In the case of revaluation, depreciation is calculated on the balance at end of year.

The Land and Buildings are treated as a single non-current asset. The revaluation method is used for land and buildings. Buildings have an estimated economic life of 40 years and depreciation is calculated on the straight line basis.

Machinery has an estimated economic life of 120,000 hours and the machine hours method is used.

Motor Vehicles are depreciated at 15% using the reducing balance method.

In addition to the above, you note the following:

- Revaluation reserve balance as at 1 October 2019: €42,750.
- The original cost of Piewie Limited's land and buildings (total: €870,000) comprises €170,000 buildings and €700,000 land. Following a fire on 1 April 2020, Piewie Limited's Land and buildings were revalued to €650,000 of which €600,000 relate to land and €50,000 relate to buildings. The useful lifetime of the buildings was then revised to 30 years.
- Machinery originally bought for €120,000 was part-exchanged for a new machine costing €36,000 with a trade-in allowance of €12,000. Up to 1 October 2019, the old machine had been used for 100,000 hours. The new machine had a total useful life of 120,000 hours and was used for 16,000 hours in 2020. The other machinery shall be used for 40,000 hours during the year.
- During the year ended 30 September 2020, motor vehicles of €65,000 were purchased.
- The company's trade receivables include a balance of €8,000 in the name of the company's insurers. You determine that this balance relates to an insurance claim for a motor vehicle that was involved in an accident and scrapped. The amount being claimed is the net book value of the said motor vehicle, which was purchased on 1 February 2019.

Required:

- A. Prepare the following for the year ended 30 September 2020:
- i) The Land and Buildings account, the Accumulated Depreciation account and the Revaluation Reserve Account. (6)
 - ii) The Machinery account, accumulated Depreciation account and Disposal account. (10)
 - iii) The Motor Vehicles account, and accumulated Depreciation account and Disposal account. (4)
- B. State the accounting concept underlying depreciation; and briefly explain the difference between depreciation and impairment. (5)

(Total: 25 marks)

8. As the senior accountant at Mandelbrot Manufacturing Limited, manufacturers of handheld gaming sets, you have extracted the following Trial Balance as at 30 September 2020:

	DR €	CR €
Inventory: Raw materials	8,000	
Finished goods	13,500	
Work-in-progress	15,000	
Provision for unrealised profit		6,000
Purchases raw materials	298,000	
Factory wages	193,700	
Sales		989,000
Carriage inwards on raw materials	76,000	
Carriage outwards	24,000	
Water & electricity	12,960	
Machinery repairs and maintenance	11,400	
Returns	3,740	2,200
Discounts allowed/Discounts received	9,710	5,980
Rent	19,800	
Administration expenses	18,830	
Plant and machinery insurance	1,400	
Administrative and sales staff salaries	125,920	
Plant cost/ depreciation allowance	490,000	294,000
Machinery cost/depreciation allowance	216,000	108,000
Motor vehicles cost/ depreciation allowance	75,000	48,000
Trade receivables/Trade payables	178,040	56,620
Allowance for credit losses (doubtful debts)		12,000
Share capital (€1 nominal value per share)		400,000
Share premium		60,000
2.5% Loan		150,000
Retained profits		46,200
Bank	387,000	
	2,178,000	2,178,000

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You have been provided with the following additional information:

a) As at 30 September 2020, inventory was valued as follows:

	€
Raw Materials:	18,000
Finished Goods:	27,500
Work-in-Progress:	13,000

- b) Finished goods are transferred to the trading account at cost plus 35%.
 c) Water and electricity is apportioned between factory and office on a 80:20 basis.
 d) Half of the factory wages relate directly to the manufacturing process, while the remaining are in respect of other labour costs not directly related to the manufacturing process.
 e) The rental expense includes €5,000 for the rental of a small manufacturing warehouse. The remainder of the rent pertains to the rental of office premises.
 f) As at 30 September 2020, Office rent was prepaid by €2,800; whilst Administrative expenses of €3,450 were due but not yet paid.
 g) Depreciation is allowed for as follows:

Plant:	5%, Straight line basis
Machinery:	12.5%, Straight line basis
Motor Vehicles:	20% Reducing Balance Method

- h) It is estimated that Motor vehicles are utilised at 80% for the transport of raw materials; whilst the remainder is utilised for the transport of finished goods.
 i) The loan was drawn two years ago to finance investment in new plant. The interest on the loan is payable annually in arrears.
 j) Based on own historic data and taking into consideration the current economic scenario and forward looking economic data, the probability of default has decreased and estimated credit losses (doubtful debts) as at 30 September 2020 amount to €10,600.

Required:

- A. Prepare the Manufacturing account of Mandelbrot Manufacturing Limited for the year ended 30 September 2020, clearly detailing the Prime Cost and the final transfer to the trading account at transfer prices. (10)
 B. Prepare the Unrealised Profit Account for the year ended 30 September 2020. (3)
 C. Prepare the Statement of Profit and Loss for the year ended 30 September 2020. (7)
 D. Briefly explain why manufacturing profits and trading profits are reported separately. (5)

(Total: 25 marks)

9. The following are the statements of financial position for Toucan Limited as at the years ended 31 December 2019 and 2018, respectively:

Statement of Financial Position as at				
	31 December 2019		31 December 2018	
	€	€	€	€
<u>Non-Current Assets</u>				
Land and Buildings		763,500		800,000
Plant and Equipment		152,859		120,000
		<u>916,359</u>		<u>920,000</u>
<u>Current Assets</u>				
Inventories	82,000		65,000	
Trade Receivables	43,050		90,000	
Cash and Cash Equivalents	475,091		53,000	
		<u>600,141</u>		<u>208,000</u>
<u>TOTAL ASSETS</u>		<u>1,516,500</u>		<u>1,128,000</u>
<u>EQUITY AND LIABILITIES</u>				
Ordinary share capital (Nominal value €1 per share)		550,000		400,000
Share Premium		64,000		159,000
Revaluation reserve		250,000		150,000
Retained Earnings		117,500		12,500
		<u>981,500</u>		<u>721,500</u>
<u>Non-Current Liabilities</u>				
4.5% Loan		400,000		250,000
<u>Current Liabilities</u>				
Trade payables	117,000		145,250	
Loan interest payable	18,000		11,250	
Total Current Liabilities		<u>135,000</u>		<u>156,500</u>
<u>TOTAL EQUITY AND LIABILITIES</u>		<u>1,516,500</u>		<u>1,128,000</u>

The following information is available for the year ended 31 December 2019:

- On 30 September 2019, the Directors of Toucan Limited decided to make a bonus issue of 1 share for every 4 shares held through the capitalisation of the share premium reserve.
- On 1 December 2019, the company issued 50,000 new shares at a price of €1.1 per share.
- The proposed dividend of €0.01 per share as at the end of 2018 was approved and paid during 2019.
- The original cost of the company's buildings as at 31 December 2018 was that of €480,000; and the land at revaluation stood at €400,000. Buildings are depreciated using a 5% straight line basis.

Question continues on next page

- e) Following a major pollution incident in 2019 next to some property owned by Toucan Limited, buildings bought on 1 January 2015 for a cost of €150,000 were sold at year end for the value of €132,000. The company did not acquire any new land and buildings during 2019.
- f) On 31 December 2019, Toucan Limited revalued its land to €500,000.
- g) During 2019, Equipment originally bought for €34,000 on 1 January 2015 was disposed of for €12,000. New Equipment costing €85,000 was acquired. Equipment is depreciated using the reducing balance method, at an annual rate of 20%.
- h) It is the company's accounting policy to charge a full year's depreciation on acquisition and nil in the year of disposal.
- i) An additional loan amount of €150,000 was taken out by Toucan Limited on 1 January 2019 at the same rate of interest of 4.5%. Although the 2018 interest was paid in 2019, the 2019 interest remained unpaid.

Required:

- A. Prepare a Statement of Cash Flows for Toucan Limited for the year ended 31 December 2019. (20)
- B. Suppose that Toucan Limited had issued debentures instead of the bonus issue as stated in (a) :
 - i) Briefly outline **TWO** differences between a bonus issue of shares and an issue of debentures.
 - ii) Explain how the issue of debentures would have affected the cash flow statement prepared in (A). (5)

(Total: 25 marks)



SUBJECT:	Accounting
PAPER NUMBER:	II
DATE:	15 th December 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.

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SECTION A

Answer ALL questions in this section. This section carries a total of 20 marks.

- Briefly explain the differences between job costing and process costing, and mention **TWO** industries that use job costing and **TWO** industries that use process costing. (4)
- Compare the marginal and absorption costing approaches to inventory valuation. Identify the method that should be used for inventory valuation in a set of financial statements for publication. (4)
- What is variance analysis? Describe **TWO** benefits that can be derived by an entity when it carries out variance analysis. (4)
- Distinguish between relevant and irrelevant costs in decision making. Give **TWO** examples of relevant costs and **TWO** examples of irrelevant costs. (4)
- Explain the difference between normal and abnormal losses in process costing, indicating clearly how each loss arises and how each is treated for costing the product. (4)

SECTION B

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

6. Throw Ltd operates in the fabric retail industry. The company experienced a considerable decrease in its sales over the past year and reported a net trading loss for the year ended 31 March 2020 due to unprecedented circumstances which impacted performance. As a result, management decided to introduce tighter controls over cash resources during 2021.

The company's projected statement of financial position as at 31 March 2021 is as follows:

	€	€
Non-Current assets		442,800
Current assets:		
Inventory	77,620	
Trade receivables	158,720	
Prepaid rent	30,000	
Bank	12,650	
	<hr/>	278,990
		<hr/>
		721,790
Share capital	480,000	
Retained earnings	81,500	
	<hr/>	561,500
Current liabilities:		
Trade payables	156,790	
Accrued water & electricity	3,500	
	<hr/>	160,290
		<hr/>
		721,790
		<hr/>

Management provided you with the following explanations which underlie the forecast:

- a) Throw Ltd purchases 60% of the goods on credit whereas the remainder are on a cash basis. Throw Ltd pays suppliers one month after the purchase takes place. As from April 2021, management agreed to introduce a system whereby inventory levels at the end of each month cover only 40% of the sales projected for the following month.
- b) In order to boost sales, the gross profit mark-up has been revised downwards to 25%, and as a result, the budgeted sales are as follows:

2021	€
April	83,700
May	144,400
June	105,000
July	121,000

- c) 20% of the sales are for cash. One-third of the credit sales are settled during the month after the sale takes place whilst the remainder are collected during the following month. Credit sales during February and March 2021 are expected to amount to €90,270 and €98,540, respectively.

- d) The inventory held at 31 March 2021 includes old fashioned stock originally purchased for €18,000. This is to be heavily discounted and expected to be sold for €10,000 in cash in April. This sale is not included in the sales figures provided in (b) above.
- e) Throw Ltd pays annual rent of €120,000 in two instalments in advance, every June and December.
- f) Other expenses incurred during 2021 by the Company shall be paid at the end of each month, except for water and electricity, which is paid after 1 month. These expenses are:

	April	May	June
	€	€	€
Water and electricity	4,150	6,800	8,400
Wages and salaries	10,500	12,250	17,200
Advertising	1,200	1,250	1,450

- g) Due to a fall in market demand, Throw Ltd had to decrease the level of production and consequently some equipment is being left idle. Accordingly, management decided to rent the said equipment to third parties as from April 2021 for six months for €2,500 monthly. The Company agreed to receive the monies on a monthly basis in advance. The company's annual depreciation charge on its non-current assets is estimated at €62,000.

Required:

- A. Prepare a detailed monthly cash budget for the 3 months ending 30 June 2021 for Throw Ltd. (18)
- B. Draft a projected Profit and Loss Statement for the 3 months ending 30 June 2021 and a Statement of Financial Position as at that date. (12)

(Total: 30 marks)

Please turn the page

SECTION C

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

7. Scouting Limited is a company manufacturing tents and sleeping bags. Its two production departments, namely, the Tents Department and the Sleeping Bags Department are serviced and supported by three other departments, namely Stores, Maintenance and Packaging.

The budgeted factory overheads for the year ended 31 December 2019 were as follows:

	€
Indirect Labour	1,482,000
Stores Materials	32,253
Rent	350,897
Packaging Materials	10,145
Electricity	92,368
Building insurance	34,587
Machinery Depreciation	43,750

The following additional budgeted information is available:

	Tents	Sleeping bags	Stores	Maintenance	Packaging
Number of indirect employees	22	30	8	6	12
Floor area (square metres)	10,200	5,400	400	220	250
Electricity units	182,430	217,950	18,540	22,470	20,450
Machinery cost – €	480,000	395,000	-	-	-
Machine hours	66,000	384,000	-	-	-
Direct Labour hours	220,000	96,000	-	-	-

Rent includes factory rent of €296,460. The remaining balance relates to rent of warehouses used exclusively by the following departments:

	Tents	Sleeping bags	Maintenance
	€	€	€
Warehouse rent	15,374	23,868	15,195

The costs of the service departments are allocated to the production departments as follows:

	Tents	Sleeping bags	Stores	Maintenance	Packaging
Stores	30%	40%	-	15%	15%
Maintenance	35%	50%	-	-	15%
Packaging	60%	40%	-	-	-

The actual figures for the year ended 31 December 2019 were as follows:

	Tents	Sleeping bags
Machine hours	68,420	381,400
Direct Labour hours	226,476	98,244
Total overheads - €	1,006,232	1,052,873

Required:

- A. Calculate the budgeted overhead recovery rate for the year ended 31 December 2019 using both the machine hour rate and the labour hour rate for the Tents Department and the Sleeping Bags Department. (12)
 - B. Determine the more appropriate overhead recovery rate from those calculated in (A), clearly explaining the reasons why, for the:
 - i) Tents Department
 - ii) Sleeping Bags Department (3)
 - C. Applying the appropriate overhead recovery rate determined in (B), calculate the amount of overheads over or under absorbed by the Tents Department and the Sleeping Bags Department during 2019. (5)
 - D. Mention two other bases of overhead absorption, besides the ones used in (A), briefly explaining in which instances these absorption bases would be more appropriate. (5)
- (Total: 25 marks)**

8. Tuff Lawyers is a leading legal firm in Malta specialising in corporate and shipping law. The company’s employees are as follows:

Type of Labour	Category	Basic salary per employee - €	Performance bonus as a % of basic salary	Number of employees
Direct Labour	Corporate Lawyers	50,000	10	20
Direct Labour	Shipping Lawyers	47,000	10	16
Direct Labour	Junior Lawyers	25,500	5	18
Indirect Labour	Support Staff	18,000	3	12

The firm has a single labour hour rate on which it bases its charge-out rate. It wants to calculate separate labour hour recovery rates for its two areas of specialisation, namely, the corporate and the shipping areas.

The following additional information is available:

- a) Each employee is entitled to a statutory annual bonus of €512.
- b) The firm pays national insurance contributions at the rate of 10% of the basic salary.
- c) Junior lawyers perform work in both the corporate and in the shipping areas. The related labour cost is to be allocated in proportion to the number of corporate lawyers and shipping lawyers.
- d) The labour cost of support staff is to be divided equally between the corporate and the shipping areas.
- e) The firm’s annual overheads are estimated at €270,788 per annum. €31,668 are to be allocated directly to the corporate area and €9,120 are to be allocated directly to the shipping area. The remaining overheads are to be allocated 60% to the corporate area and 40% to the shipping area.
- f) All employees work on a 40-hour week for five days a week, except for the shipping lawyers who work on a 45-hour week.
- g) All employees are entitled to 208 hours as vacation leave entitlement per annum.
- h) All employees are entitled to sick-leave. Based on past trends, it is estimated that the sick-leave will be of 112 hours per employee per annum.

Question continues on next page

Required:

- A. Calculate the cost incurred per direct labour hour for:
- i) Corporate Legal Services
 - ii) Shipping Legal Services (14)
- B. Assuming a profit loading of 25% for the firm, calculate the labour hourly rate to be charged to the firm's clients for:
- i) Corporate Legal Services
 - ii) Shipping Legal Services (3)
- C. A shipping company has approached the firm to provide it with legal services. This job will require 10 hours of corporate legal services and 84 hours of shipping legal services. Calculate the amount to be quoted to the shipping company. (3)
- D. Briefly discuss the difference between time-rates and piecework methods of labour remuneration. (5)
- (Total: 25 marks)**

9. Mobile Limited is a company involved in the import and sale of upmarket mobiles. The company operates a small number of shops in Malta's main shopping malls. You have been approached to perform a review of the inventory of one particular brand of mobile.

The following information with respect to inventory movements is available for the month of August 2020:

Date	Units purchased	Purchase price per unit €
2 August	500	485.00
13 August	895	490.00
22 August	390	491.00

Date	Units issued
5 August	420
9 August	265
18 August	830
25 August	260
30 August	310

On 1 August 2020, there were 520 units in inventory valued at a total of €299,520.

The following additional information was provided to you:

- a) Mobile Limited imports this particular brand of mobile from Dubai and incurs customs duty at 20% of the value of each consignment.
- b) Storage costs amount to an average of €1 per unit.
- c) Mobile Limited pays 10% commission to its sales personnel on the sales of this particular brand. The selling price is fixed at a gross profit margin of 30%.
- d) Daily sales are at least 50 units and not more than 96 units.
- e) The minimum delivery period from the company's suppliers is 4 days and the maximum delivery period is 6 days.

Required:

- A. Calculate the value of closing inventory of this particular brand of mobile as at 31 August 2020 using:
- i) First In First Out (FIFO) on a perpetual basis
 - ii) Weighted Average Cost (AVCO) on a perpetual basis (10)
- B. Calculate the value of closing inventory as at 31 August 2020 using the Weighted Average Cost (AVCO) on a periodic basis. (4)
- C. Should the re-order quantity be set at 410 units, calculate the following:
- i) Re-order level
 - ii) Maximum inventory level
 - iii) Minimum inventory level (6)
- D. Explain the accounting treatment of customs duty, storage costs and selling costs, referred to (a), (b) and (c) above, in relation to inventory valuation. (5)

(Total: 25 marks)