



SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	29th August 2022
TIME:	9:00 a.m. to 12:05 p.m.

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

Section A

Answer any **FIVE** questions from this section. Each question carries 4 marks.

Section B

Answer question 8. **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 any FIVE questions in this section. This section carries a total of 20 marks.

- Chris is on the Board of Directors of a leading manufacturing company. The company is a public listed company. The Board is in the process of examining the financial statements for the financial year just ended. He is surprised to see a Statement of Cash Flows included in the set of financial statements, and asks why is it being included in a set of accrual-based financial statements.
You are required to answer Chris by first identifying the main contents of a set of financial statements. Then, focus on the Statement of Cash Flows and highlight the objective of such statement, and briefly explain what **each** section of the statement represents. (4)
- John is not sure why the company that he works for is both public and listed. He had the impression that all public companies are listed.
Explain to John the difference between a private company, a public company, and a listed company. In your answer, you are required to address John's statement that all public companies are listed. (4)
- The manufacturing company that Kelly works for values its inventory of finished goods at transfer prices. Kelly cannot understand why the company is doing this. Furthermore, she is confused because the notes to the financial statements state that inventory is valued at the lower of cost and net realisable value.
Explain to Kelly why the company values its inventory at transfer prices, and how the resulting valuation in the Statement of Financial Position is in line with the note specifying valuation of inventory. (4)

Questions continue on next page.

4. The manufacturing company that Rebecca works for reports a substantial amount of property, plant and equipment in its Statement of Financial Position. She notes that the company owns a large amount of land and buildings, however the note says that land is not depreciated. Rebecca cannot understand how such a policy could be acceptable.
Explain to Rebecca why land is **not** depreciated, starting from the basic definition of depreciation, and then describing the **FOUR** causes of depreciation. (4)
5. After graduating with a degree in marketing, Maya had rented an office in Paola and started designing advertisements and promotional campaigns. Her business is becoming very popular, and she approached the bank to obtain finance so that she can invest in some high-tech computer equipment and software. Maya was rather surprised that the bank asked to see her financial statements for the first six months of operations, because she had thought that her financial information is confidential. She has approached you to assist her with the bank's request.
With regards to her concern about confidentiality, you are required to explain why the bank has requested to see her financial statements, and identify **THREE** other potential users of the financial statements, providing reasons for their interest. (4)
6. Darren and Gloria have known each other since their Sixth Form, and they remained friends throughout their time at the University reading for the Accountancy degree. After graduation, Darren worked with an audit firm, while Gloria was engaged as a financial accountant with a pharmaceutical company.
Explain the roles of a financial accountant and an auditor, contrasting their responsibilities and reporting audience. (4)
7. Pharma Ltd is involved in a law suit instigated by one of the customers. The customer is seeking redress for damages, and the company's lawyers are not in a position to provide an opinion on the most likely outcome to the case.
Explain the difference between a liability and a provision, and the alternatives to consider in the preparation of the company's financial statements regarding the law suit in process. (4)

(Total: 20 marks)

SECTION B**Answer Question 8 in this section. This question is compulsory and carries 30 marks.**

8. Blue Monkey Ltd retails its trademark Blue Motorcycles. The following comprises its trial balance as at the year end 31 March 2022:

	€	€
Land	350,000	-
Buildings	150,000	
Buildings - Depreciation		9,000
Shop Fittings - Cost	50,000	
Shop Fittings - Depreciation		45,000
Motor Vehicles - Cost	21,000	
Motor Vehicles - Depreciation		13,967
Inventory	462,509	
Trade Receivables	87,732	
Allowance for doubtful debts/Allowance for expected credit losses		3,600
Bank balance	500,010	
Trade payables		140,484
Ordinary share capital (nominal value €1 each share)		600,000
Retained earnings		42,000
Sales		1,500,000
Purchases	675,000	
Water & electricity	12,000	
Advertising costs	5,000	
Wages and salaries	280,000	
Finance costs	5,000	
Motor vehicle repairs	2,000	
Carriage inwards	40,000	
Carriage outwards	12,000	
Bank Loan (4%)		300,000
Suspense account	1,800	
	2,654,051	2,654,051

You are currently finalising the financial statements for internal use for the year ended 31 March 2022, taking into consideration the following information:

- The value of the closing inventory was €600,000.
- Following a spell of bad weather during the last week of the year, €19,000 worth of motorcycles held as inventory at year end were damaged. In April 2022, €12,000 were spent to repair them, and the motor cycles were sold at a reduced price of €30,000.
- €7,000 worth of repairs were incurred in respect of motor vehicles held for own use. These were not reflected in the above trial balance because the invoice was received in April 2022.

The question continues on next page.

d) It is the company's accounting policy to allow for depreciation as follows:

Non-Current Asset	Depreciation Method	Depreciation Rate
Showroom Buildings	Straight Line Method	2%
Shop Fittings	Straight Line Method	10%
Motor vehicles	Reducing Balance Method	30%

A full year's depreciation is allowed for in year of acquisition, and none in the year of disposal. No allowance for the depreciation for the year 31 March 2022 on any non-current asset has been made so far. Land is not subject to depreciation.

- e) On 31 March 2022, the company issued 250,000 ordinary shares for a total consideration of €300,000. The money received was used to pay back the bank loan. The loan interest outstanding on that date was also paid. These transactions have not yet been recorded in the books of the company.
- f) €12,000 worth of trade receivables were to be written off following the defaulting of a couple of customers. Furthermore, a specific allowance is to be made on a customer's balance of €1,515.
- g) It was discovered that the suspense account balance pertained to a payment to a creditor which was not posted to the supplier's account.

Required:

- A. Prepare a Statement of Profit and Loss for the year ended 31 March 2022. (16)
- B. Prepare the Statement of Changes in Equity for the year ended 31 March 2022. (4)
- C. Prepare a Statement of Financial Position as at 31 March 2022. (10)

(Total: 30 marks)

SECTION C

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

9. The following are the Statements of Profit and Loss and the Statements of Financial Position of Attard plc and Balzan plc, for the year ended 31 December 2021:

	Attard plc €	Balzan plc €
Statement of Profit and Loss		
Sales	263,000	289,800
Cost of sales	(182,200)	(205,000)
Gross profit	80,800	84,800
Overheads	(41,300)	(35,030)
Net profit	39,500	49,770
Bank interest	(1,760)	(3,200)
Net profit	37,740	46,570
Statement of Financial Position		
<u>Non-current Assets</u>		
Property, plant and equipment	400,000	310,000
Depreciation Allowances	(138,000)	(142,000)
	262,000	168,000
<u>Current Assets</u>		
Inventories	13,200	36,500
Trade receivables	36,000	42,600
Cash	1,700	800
	50,900	79,900
Total Assets	312,900	247,900
Ordinary Share Capital	160,000	100,000
Share Premium	28,000	20,000
General Reserve	50,000	20,000
Retained earnings	36,740	39,570
	274,740	179,570
<u>Non-Current Liabilities</u>		
5% Bank Loan	-	40,000
<u>Current Liabilities</u>		
Trade payables	15,400	19,800
Accruals	7,760	8,530
Bank overdraft	15,000	-
	38,160	28,330
Total Equity and liabilities	312,900	247,900

The question continues on next page.

Other information:

- a) The share capital of Attard plc is made up of ordinary shares of €0.50 each, while the ordinary shares of Balzan plc are of €1 each.
- b) All of Attard's sales were on credit; while 10% of Balzan's sales were for cash.
- c) The opening inventories of Attard and Balzan were €18,900 and €48,600, respectively.

Required:

- A. Compute the following ratios for the **TWO** companies:
 - i. Return on Capital Employed;
 - ii. Gross Profit Margin;
 - iii. Current ratio;
 - iv. Quick ratio;
 - v. Inventory Turnover in days;
 - vi. Trade Receivables Collection Period;
 - vii. Gearing ratio; and
 - viii. Earnings per Share. (16)
- B. From the ratios computed in (A), compare the profitability and liquidity of the **TWO** companies; and assess their potential as an investment opportunity. (9)

(Total: 25 marks)

10. Purple Phoenix Limited is a distributor of high-fashion apparel. The following are extracts from the trial balance as at 31 December 2020:

	DR	CR
	€	€
Land & Buildings	1,500,000	450,000
Motor Vehicles	180,000	78,750
Warehouse Machinery	475,000	114,000
IT Equipment	75,000	15,000

The following is an extract from the company's accounting policy in relation to Property, Plant and Equipment:

Property Plant and Equipment	Depreciation Basis	Estimated Useful Lifetime / Rate
Land & Buildings	Straight Line basis for depreciation on Buildings Land is not subject to depreciation	30 years (buildings)
Warehouse Machinery	Machine hours method	50,000 hours
Motor Vehicles	Reducing Balance Method	25% per annum
IT Equipment	Straight Line Method	5 years

It is the company's policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal, except for the warehouse machinery, where the depreciation is based on the estimated production for the year.

The following transactions occurred during 2021:

- a) On 1 January 2021, machinery originally bought for €30,000 was disposed of in part-exchange for a new machine, costing €19,000, with a trade-in allowance of €7,000. The old machine had a useful lifetime as per the above schedule. To the date of sale, the old machine had been used for 25,000 hours. The new machine has an estimated total useful life of 20,000 hours and was used for 6,000 hours in 2021.
The other remaining machinery items are typically used for 10,000 hours per annum. On 1 January 2021, their individual remaining useful lives exceeded 10,000 hours.
- b) Of the €1,500,000 land and buildings owned, €500,000 pertain to buildings.
- c) IT equipment originally costing €15,000, with three years' worth of useful life left as at the end of 2020, was rendered obsolete and has been scrapped.
- d) New IT equipment with a value of €21,000 was purchased during the year.

Required:

- A. Prepare as at 31 December 2021:
 - i. The Land and Buildings account, and the Accumulated Depreciation account; (3)
 - ii. The Motor Vehicles account and Accumulated Depreciation account; (3)
 - iii. The Machinery account, Accumulated Depreciation account and Disposal account; and (8)
 - iv. The IT Equipment account, Accumulated Depreciation account and Disposal account. (6)
- B. During the first months of 2022, Purple Phoenix developed an in-house online ordering application, costing €180,000. These development costs were capitalised as an intangible asset. Describe what is meant by an intangible asset and explain the accounting treatment of such assets. (5)

(Total: 25 marks)

11. Lily's Haberdashery is a retail outlet specialising mostly in ladies' wear and accessories. During the year ended 31 December 2021, Lily recorded the following events:
 - a) The cost of a maintenance agreement entered into on 1 February 2020 amounts to €1,920 annually, and is paid in advance in four equal instalments due every 1 February, 1 May, 1 August and 1 November. Towards the end of 2021, Lily was informed that as from 1 January 2022 the annual charge was to increase by 20%. The last instalment which was due on 1 November 2021 has not yet been paid.
 - b) Lily employed five workers each earning €260 per 5-day 40-hour week during 2021. The wage rate is 4% more than in 2020. During the year 2021, total wages paid, including overtime, amounted to €72,500. Lily keeps one-week wages in hand for her employees. 31 December 2021 fell on a Friday when wages are normally paid; but at that date, the workers had accumulated a total of 22 hours of unpaid overtime. Overtime is paid at 1½ times the normal wage rate. On 31 December 2020, the workers had accumulated 16 hours of overtime. There were no changes in the workforce during the previous two years.

The question continues on next page.

- c) Lily received five bills for water and electricity consumption during the year to December 2021, amounting €324, €450, €520, €380 and €570. The first bill was for the three months ended 31 January, while the last one was for the three months ended 30 November. It is assumed that, during the last four months of the year, the water and electricity consumption was uniform for each of the four months.
- d) The annual rental expense is €6,720. As from 1 September 2021, Lily entered into an agreement with the landlord to lease an attached additional warehouse at €1,800 per annum. Rent is paid in advance quarterly falling due on the 1 March and every three months thereafter. Because of the Covid pandemic, Lily reached an agreement with the landlord to postpone the last instalment of 2021 to 1 February 2022.
- e) The sales and purchases ledgers recorded the following movements:

	€
Opening balance of Trade Receivables	32,600
Opening balance of Trade Payables	19,700
Closing balance of Trade Receivables	33,874
Closing balance of Trade Payables	19,112
Returns in	5,620
Returns out	12,400
Discounts received	9,850
Discounts allowed	18,300
Bad debts	7,620
Bad debts recovered	268
Set off	1,072
Payments to suppliers	185,490
Receipts from customers	294,130

Required:

- A. For Lily's Haberdashery prepare the ledger accounts of Maintenance, Wages, Water and Electricity, and Rent. In **each** account, show **ALL** entries occurring during the year, the transfer to the Statement of Profit and Loss, and any opening and closing balances. (16)
- B. Prepare the Sales Ledger and Purchases Ledger Control Accounts, and calculate the sales and purchases during the year 2021. (9)

(Total: 25 marks)

12. The following is the Trial Balance of Maroon Stallion Limited, a local restaurant chain of fine fusion cuisine, after preparing the draft Statement of Profit and Loss for the year ended 31 December 2021:

	DR €	CR €
Land and Buildings/Depreciation Allowance	2,500,000	780,000
Restaurant fittings/Depreciation Allowance	750,000	562,500
Motor vehicles/Depreciation Allowance	75,000	23,890
Office Equipment/Depreciation Allowance	15,000	9,000
Trade receivables/Trade payables	3,500	10,500
Inventory	285,000	
Share capital (€1 nominal value per share)		1,500,000
Share premium		250,000
Revaluation reserve		150,000
Bank Loan (4%)		500,000
Retained profits		175,000
Bank	1,930,531	
Draft Profit for the Year		1,608,141
Bank interest	10,000	
	5,569,031	5,569,031

The company has recently undergone some changes in governance and financing structure. The following information has **not** been factored in the above trial balance:

- a) In February 2021, a rights issue of 100,000 shares of €1 nominal value each were issued at a market value of €1.35. After the rights issue, the company conducted a bonus issue of 1 share for every 64 held, through the capitalisation of the share premium reserve.
- b) During the Annual General Meeting held in July 2021, the Directors declared on a dividend of €0.03 per share on the ordinary shares held as on 1 January 2021. The dividend was approved by the meeting and made payable within six months. The dividends were still outstanding as at 31 December 2021.
- c) The directors decided to opt for longer term financing than the term of the bank loan. An issue of €300,000 unsecured debentures with a coupon of 3.5% was made. The funds were received on 31 December 2021. On the same day, the outstanding bank loan and the remaining interest due were settled.
- d) Wages and salaries of €15,000 were outstanding as at year end; marketing expenses of €2,000 were paid in advance.

Required:

- A. Prepare journal entries to deal with the above transactions. (15)
- B. Prepare a Statement of Corrected Net Profit for the year. (5)
- C. Prepare extracts from the Statement of Changes in Equity for the year ended 31 December 2021. (5)

(Total: 25 marks)



SUBJECT:	Accounting
PAPER NUMBER:	II
DATE:	30 th August 2022
TIME:	9:00 a.m. to 12:05 p.m.

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

Section A

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

Section B

Answer question 8. **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 any FIVE questions in this section. This section carries a total of 20 marks.

- Birgu Ltd operates a group of retail outlets across Malta and Gozo. Mellieha Manufacturing Co. Ltd operates a factory that manufactures designer clothes. Identify and explain **TWO** differences in the budgets prepared by the **TWO** companies. (4)
- In order to satisfy demand, sometimes a manufacturing company considers the possibility of acquiring the finished products from other manufacturers who produce similar goods. Discuss **TWO** considerations the management of the manufacturing company must keep in mind when deciding whether to make or buy a product. (4)
- Maria operates a retail shop selling renowned brands of skin solutions. She has invested a material sum of money in a computerised inventory management system. Her accountant asked her whether she is valuing her inventory using FIFO or AVCO. Explain to Maria the meaning of FIFO and AVCO, and the implications of the **TWO** inventory valuation methods on Maria's reported profit. (4)
- Kosmetica Ltd is a retailing company. It imports goods from Italy, France and Japan, incurring various costs, like insurance, customs duties, other freight costs and storage in transit. Once the goods arrive in Malta, Kosmetica Ltd keeps the goods in a rented warehouse until the goods are issued to the company's shops. Explain which of these costs are included in the cost of inventory and why. (4)
- On analysing profit statements over a number of years, John notes that there is no direct relationship between net profits and the quantity of items sold. It seems that a certain quantity of sales needs to be achieved before profits start being earned. What is this threshold that John has noted called? Explain how this threshold can be calculated and identify **ONE** advantage of carrying out such an analysis. (4)

Questions continue on next page.

6. Creamy Ltd operates a processing plant manufacturing various milk products for the local market. The management accountant, Rick, thinks that it is high time that certain costings are revised, particularly, the estimation of expected and unexpected losses from the different processes. He wants to brief the directors on the calculations required and he has asked you, as his assistant, to prepare short notes that identify the difference between normal and abnormal losses, including their respective accounting treatment. Assume that losses do **not** have a scrap value. (4)
7. Distinguish between relevant and irrelevant costs in decision making. Give **TWO** examples of relevant costs and **TWO** examples of irrelevant costs. (4)

(Total: 20 marks)

SECTION B

Answer Question 8 in this section. This question is compulsory and carries 30 marks.

8. Artur Limited started retail operations on 1 October 2022. The proceeds received from the issue of share capital, amounting to €100,000, were deposited with a local bank. In addition to this cash inflow, Artur Limited is also considering taking out a short-term loan. The company is requesting you to prepare a statement to determine the cash requirements of the new venture for the 3-month period ending 31 December 2022. For this purpose, the following information was provided.
- a) In order to be in a position to start its operations, the company acquired non-current assets costing €500,000. A cash deposit of 25% had to be paid on 1 October 2022. The remaining balance has to be settled in six equal monthly instalments on the first day of each month as from 1 November 2022. Non-current assets are to be depreciated using the straight line method at 20% per annum, on a pro-rata basis. The estimated value of the non-current assets at the end of their expected useful life is deemed immaterial.
- b) At the beginning of October 2022, the company acquired goods to cover the sales projected for the months of October and November. The company decided to maintain inventory levels at month end equivalent to the sales projected for the following month. Suppliers request payment for 30% of the value transacted in the month of purchase. The remaining balance has to be settled in the month following the purchase transaction.
- c) All goods purchased are sold at a gross profit margin of 60% and budgeted sales are as follows:

	€
October	140,000
November	160,000
December	200,000
January	210,000

- d) 50% of the sales shall be on a cash basis, attracting a discount of 5%. 25% of credit sales will be settled in the month following the sale, while the remaining balance is expected to be received two months after the sale.
- e) Gross wages are budgeted at €15,000 per month. 20% of gross wages represent tax deductions and the employees' share of national insurance contribution. The employer's share of national insurance contribution amounts to 10% of gross wages. Net wages are

to be paid on the last day of each month, whereas tax and national insurance contributions (including the company's share) will be paid in the following month.

- f) Monthly finance costs, comprising interest and bank charges, are estimated at €800 and are payable at the end of each month. Other overheads, excluding depreciation, are estimated at €10,000 per month. Overheads have to be paid one month after they are incurred.

Required:

- A. Prepare a monthly cash budget for the **THREE** months ending 31 December 2022. (14)
 B. Prepare a budgeted Statement of Profit and Loss for the **THREE** months ending 31 December 2022, and a budgeted Statement of Financial Position as at that date. (16)

(Total: 30 marks)

SECTION C

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

9. Production Limited manufactures three types of chairs, namely luxury, office and home. The production costs per unit are as follows:

Product	Luxury	Office	Home
	€	€	€
Direct Materials	250	170	252
Direct Labour	48	72	24
Variable Overheads	34	46	24

The company's employees are paid at the rate of €12 per hour. Following a collective agreement specifying the maximum amount of overtime to be worked by each employee, it is expected that the amount of labour hours available will be of 175,000 hours per year.

The expected demand for each of the company's products and the expected selling prices per unit for the coming financial year are as follows:

Product	Luxury	Office	Home
Demand – units	12,000	20,000	17,000
Selling price per unit - €	600	540	480

The fixed production overheads for the coming financial year are budgeted at €7,700,000.

Required:

- A. Prepare a statement advising management on the most profitable production pattern to pursue during the next financial year. (14)
 B. Prepare a profit statement showing the contribution and profit for the coming financial year based on your advice in (A). (6)
 C. Briefly explain to management the term 'limiting factor' and its implication in the decision-making process. (5)

(Total: 25 marks)

Please turn the page.

10. XYZ Limited is a company manufacturing a component for motor vehicles. The production is done in three departments namely, Department X, Department Y and Department Z. The budgeted information for the quarter ended 31 March 2022 was as follows:

Department	Direct Labour Cost €	Labour Hours	Machine Hours	Overheads €
X	190,000	28,200	1,500	98,700
Y	224,175	31,500	45,000	113,400
Z	105,200	15,500	6,000	37,200

The actual results for the quarter ended 31 March 2022 were as follows:

Department	Direct Labour Cost €	Labour Hours	Machine Hours	Overheads €
X	200,000	25,000	1,750	88,000
Y	225,000	33,000	44,100	115,000
Z	115,000	16,200	6,200	36,800

The company currently uses a blanket production overhead recovery rate, which is a percentage of total direct labour costs.

The following information is given for Job Number 625:

Department	Direct Labour Cost €	Labour Hours	Machine Hours	Material Cost €
X	600	90	30	1,250
Y	575	85	225	700
Z	1,200	170	25	850

A 25% mark-up is added to production cost in order to determine selling prices.

Required:

- Calculate the current overhead recovery rate used by the company. (4)
- As the company's accountant, you have suggested that overhead recovery rates for each department would be more appropriate. Calculate the overhead recovery rates for **each** department using the labour hour rate and the machine hour rate; and determine the appropriate recovery rate for **each** department. (8)
- Calculate the selling price of Job Number 625 when using the current recovery rate, and compare it with the selling price of Job Number 625 when using your chosen recovery rate in part (B). (4)
- Calculate the amount of over/under absorbed overheads during the quarter ended 31 March 2022, using:
 - The current recovery rate; and
 - The recovery rates for **each** production department chosen in part (B). (4)
- With reference to your answers in parts (C) and (D), explain why a production overhead recovery rate for **each** department is more appropriate than a blanket recovery rate. (5)

(Total: 25 marks)

11. Nostalgija Limited is a company involved in the vintage style bus-building industry in line with customer demand and requirements. The company has been approached from a transport service provider to quote for two jobs: the building of an 80-seater vintage bus and the building of a 30-seater vintage bus. The jobs are to be completed within three weeks.

As the company's accountant, you have to determine the cost of these two jobs and the selling prices to be quoted. The following information is available:

- a) Four types of material will be required as follows:

	80-seater bus	30-seater bus
Material A – €8 per kg	4,000 kg	800 kg
Material B – €5 per unit	3,000 units	600 units
Material C – €10 per litre	2,200 litres	500 litres
Material D – €15 per kg	1,000 kg	200 kg

Scrap is expected to result from the use of Material A and Material D. Scrap of Material A can be sold at €1 per kg and scrap of Material D can be sold at €2 per kg. It is expected that scrap of Material A will amount to 10% of material used and scrap of Material D will amount to 5% of material used.

- b) Both jobs require skilled and unskilled labour hours as follows:

	80-seater bus	30-seater bus
Skilled labour hours	550	390
Unskilled labour hours	630	480

The company employs 6 skilled workers and 7 unskilled workers. The hourly cost of skilled workers is €18.00 per hour and the hourly cost of unskilled workers is of €6.00 per hour. The basic working week is a forty-hour week. The total number of hours available are to be divided as follows between the two jobs:

	80-seater bus	30-seater bus
Skilled labour hours	60%	40%
Unskilled labour hours	60%	40%

Overtime is worked by all the company's employees. Overtime is paid at one and a half times the normal rate. The number of overtime hours worked by each employee per week is of 8 hours. Any further labour hours required to complete the jobs are to be fulfilled by the recruitment of part-time employees. Part-time skilled employees will be paid at €35.00 per hour and part-time unskilled employees will be paid at €10.00 per hour.

- c) Production overheads are absorbed into production on the basis of labour hours worked. An absorption rate of €8.00 per labour hour is charged.
- d) Other fixed overheads of €13,000 are to be shared 70% on the 80-seater bus and 30% on the 30-seater bus.
- e) Painting works on both jobs are to be subcontracted. The subcontractor charge is expected to be €2.00 per litre of Material C used.

The question continues on the next page.

- f) Certification and engineering costs are expected to be incurred. These costs are expected to be €5,270 for the 80-seater bus and €1,670 for the 30-seater bus.
- g) The company's policy is to provide for a mark-up of 25% in order to determine selling prices.

Required:

- A. Calculate the cost of **each** job. (18)
- B. Calculate the mark-up and selling price to be quoted for **each** job. (2)
- C. Briefly explain the differences between job costing and process costing. Mention **ONE** type of industry that makes use of job costing and **ONE** type of industry that makes use of process costing. (5)

(Total: 25 marks)

12. RERA Ltd is a manufacturing company involved in the construction of two products, namely RE and RA. The shareholders of the company are concerned due to the recent lower levels of production. They have approached you as the company's cost accountant to implement incentive schemes to help improve production patterns.

The directors of the company have provided you with the following information about four of the company's employees, for a particular week:

	Elisa	Nicholai	Martina	Zac
Units produced - RE (units)	200	158	180	170
- RA(units)	180	142	140	150
Actual hours of work (hours)	42	44	42	35
Rate of pay per hour (€)	7.00	9.50	10.50	8.00

The standard time allowed per unit of product is: 6 minutes for product RE; and 8 minutes for product RA.

Any hours worked over and above 40 hours per week are paid at 1.5 times the normal rate.

For piecework calculations, the rate per minute is calculated at €0.20 for the product RE and €0.10 for the product RA.

Required:

- A. Calculate the remuneration for **each** employee using the following methods of labour remuneration:
- Hourly rate (Basic salary); (4)
 - Piecework (Flat Piece rate system); (4)
 - Piecework with the remuneration guaranteed at 75% of the basic salary (calculated in part (i)); and (6)
 - Individual bonus, whereby the employee is paid 50% of the hourly rate for **each** hour saved, in addition to the basic salary (calculated in part (i)). (6)
- B. "From the introduction of an incentive scheme, both the firm and the employees should benefit." Explain the implications of this statement. (5)

(Total: 25 marks)