



SUBJECT:	Accounting
PAPER NUMBER:	I
DATE:	30th August 2023
TIME:	9:00 a.m. to 12:05 p.m.

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

SECTION A

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

1. A company is registered with the VAT Department as a business carrying out taxable supplies at 18% VAT. During the month of August 2023, it issues sales invoices amounting to €177,000, and receives purchase invoices amounting to €94,400.
Show how these invoices are accounted for in the books of the company. Calculate the resulting VAT and state whether the resulting VAT balance is an asset or liability of the company. (4)
2. The Statement of Cash Flows is one of the main reports in a set of financial statements.
 - (a) Briefly describe the format of the Statement of Cash Flows, explaining what **each** section of the statement represents. (2)
 - (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. (2)
3. During a board meeting, one of the directors stated that research and development costs are the same thing and that both have the potential of ending up as sunk costs.
Differentiate between research and development costs and describe the accounting treatment for **each**. (4)
4. A manufacturing concern may value its inventory at transfer prices.
 - (a) What is a transfer price? (1)
 - (b) Which type of inventory would be valued at transfer prices? (1)
 - (c) Give **TWO** reasons why a manufacturing concern would value inventory identified in (b) at transfer prices? (2)
5. Financial statements are described as 'general purpose' because only one set is prepared in standard format, which is aimed to satisfy the needs of a number of users.
Identify **FOUR** users of a company's financial statements and in **each** case briefly explain their interest in these statements. (4)

(Total: 20 marks)

Please turn the page.

SECTION B

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

6. The following trial balance has been extracted from the books of PinPoint, a wholesaler, on 31 December 2022:

	€	€
Capital		318,400
Purchases/Sales	587,000	1,085,000
Returns in>Returns out	32,400	27,400
Salaries	105,200	
Electricity	39,200	
Salesmen commission	12,400	
Insurance	16,300	
Advertising	25,100	
Bad debts written off	9,400	
Discounts allowed/received	44,300	36,560
General expenses	14,500	
Computer expenses	12,600	
Telephone & Postage expenses	9,100	
Carriage in	15,300	
Carriage out	18,600	
Wages	87,900	
Other administration expenses	17,200	
Other selling and distribution costs	15,300	
Allowance for expected credit losses (doubtful debts)		2,760
Inventories	35,800	
Trade receivables/payables	37,700	65,100
Land and buildings/Depreciation allowance	345,000	32,000
Electronic equipment/Depreciation allowance	94,500	56,400
Fixtures and fittings/Depreciation allowance	50,600	28,500
Motor vehicles/Depreciation allowance	42,400	19,400
Cash	8,320	
Bank		23,200
Drawings	14,600	
Suspense	4,000	
	1,694,720	1,694,720

Other information:

- On 31 December 2022, inventories on the premises were valued at €28,400 using net current values, which was €4,100 more than the total cost price.
- PinPoint had sent goods invoiced at €9,600 to customers/retailers on a sale-or-return basis, which as yet have not been sold. The profit mark-up on these was 20%.
- The owner had made use of goods costing €6,800 for his private residence.

- d) Opening inventories were overstated by €5,200.
- e) The wages expenses include two weeks' wages of three workers at €220 each per week for repairs to the premises because of damage caused by fire. Furthermore, €2,240 of goods purchased were utilised for this purpose. The insurance company is only offering €2,300 as compensation for the loss caused by the fire. This amount was still not settled by year end because it is being contested by PinPoint.
- f) Depreciation is to be provided on electronic equipment at 40% reducing balance and 20% on cost of fixtures and motor vehicles. Buildings with a value of €200,000 are to be depreciated by €12,000.
- g) Administration expenses and insurance are prepaid by €2,800 and €1,620, respectively.
- h) On 31 December 2022, wages outstanding amounted to €3,300.
- i) A customer owing €3,400 included in Accounts Receivable was also a supplier having an account in the Trade Payables Ledger with an outstanding balance of €3,200. A set off is required.
- j) It was discovered that the following had caused the difference in the books of €4,000:
 - (i) payments of €3,500 for administration expenses and €1,200 for selling and distribution had not been debited to the relative accounts;
 - (ii) monthly payments of €75 to a cleaner were only recorded in the cash account;
 - (iii) credit purchases were recorded at €27,600, before taking into consideration a 15% trade discount. PinPoint is entitled to the trade discount. The correct amount was posted in the purchases ledger account; and
 - (iv) the remaining balance on the suspense account was for holiday expenses for the owner and his family.

Required:

- A. Prepare a Statement of Profit or Loss for the year ended 31 December 2022. (17)
- B. Prepare a Statement of Financial Position as at 31 December 2022. (13)

(Total: 30 marks)

Please turn the page.

SECTION C

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

7. A financial analyst is currently analysing the financial statements of two new tech start-ups. Her objective is to analyse the companies' financial performance, investment prospects and solvency to report to her manager, who will be allocating an investment to each start-up. The following are the financial statements of the two companies for the year ended 31 December 2022:

	€ Penrose	€ Dirac
Statement of Financial Position		
Property, Plant and Equipment (Book value)	850,000	1,080,000
Intangible non-current assets:		
Software development costs	400,000	--
Rights to third party software	--	850,000
	1,250,000	1,930,000
Inventory	56,250	30,000
Trade receivables	100,000	100,000
Cash and Cash Equivalents	37,500	62,685
	1,443,750	2,122,685
Ordinary share capital (€1 nominal value)	1,400,000	800,000
Accumulated losses	(765,000)	(449,815)
Loan	750,000	1,500,000
Trade payables	21,250	160,000
Interest payable	37,500	112,500
	1,443,750	2,122,685
Statement of Profit or Loss		
Revenue	1,250,000	4,050,000
Cost of sales	(892,857)	(1,071,400)
Gross profit	357,143	2,978,600
Research costs	(850,000)	(575,000)
Administrative expenses	(158,000)	(950,000)
Finance costs	(75,000)	(225,000)
Net Profit/(loss)	(725,857)	1,228,600

Required:

- A. Prepare a short report highlighting the financial performance and position of both companies, using the following accounting ratios:
- (i) Profitability (ROCE, Gross Profit Margin and Net Profit Margin);
 - (ii) Liquidity (Current Ratio and Acid Test Ratio);
 - (iii) Financing Structure (Gearing Ratio, Interest Cover and Earnings per share); and
 - (iv) Efficiency (Utilisation of capital employed). (20)
- B. Besides the results of the financial analysis, describe **TWO** other factors which should be considered in the decision to provide investment funds to start-up companies. (5)

(Total: 25 marks)

8. Pure Honey Limited is a retailer of fine floral honey. The company is seeking to expand its operations to launch its new 'Renaissance' range of honey.

Pure Honey Limited
Trial Balance as at 31 December 2022

	DR	CR
	€	€
Land and Buildings/Depreciation allowance	2,900,000	696,000
Manufacturing plant/Depreciation allowance	2,650,000	545,353
Motor vehicles/Depreciation allowance	120,000	48,037
Trade receivables/Trade payables	3,500	10,500
Inventory	850,000	
Ordinary Share Capital (€1 nominal)		2,500,000
Debentures (3%)		1,000,000
Share premium		250,000
Revaluation reserve		150,000
Bank Loan (2.5%)		500,000
Retained profits		164,891
Bank	1,936,531	
Gross Profit		3,111,500
Rent	15,000	
Administrative expenses	85,000	
Marketing costs	60,000	
Wages and salaries	250,000	
Bank loan interest	6,250	
Utilities	100,000	
	8,976,281	8,976,281

The trial balance does not include the following transactions:

- a) During the year ended 31 December 2022, a rights issue of 500,000 shares of €1 nominal each were issued at a market value of €2.00. All shares were taken up.
- b) The company also conducted a bonus issue of 55,000 shares of €1 nominal each through capitalisation of the share premium reserve.
- c) An interim dividend of €0.05 per share was declared and approved by the Annual General Meeting. The shares issued in (a) and (b) above were not entitled to the dividend. The interim dividend was paid in February 2023. During the Annual General Meeting, the Directors also proposed a final dividend of €0.03 per share.
- d) Buildings are depreciated over 50 years. The total carrying amount of land as disclosed within the trial balance was that of €2,000,000. Motor vehicles are depreciated using 12% reducing balance method. Manufacturing plant machinery is depreciated using 10% p.a. on cost.

Question continues on next page.

- e) As at 31 December 2022, a warehouse within the manufacturing plant site (land and buildings) was deemed to be structurally unstable. The net book value of the site (after providing for the 2022 depreciation) was €158,000, inclusive of €100,000 worth of land. Following an architect's assessment, the recoverable amount of the warehouse (only) was deemed to be nil. This is the first time that this site has been revalued.

Other information:

- The debentures were raised on 1 March 2022.
- Rent of €15,000 was paid in advance for a temporarily leased warehouse.
- Bank loan interest was paid covering half a year.

Required:

- A. Prepare the profit or loss account for Pure Honey Limited for the year ended 31 December 2022. (8)
- B. Prepare the Statement of Changes in Equity for the year ended 31 December 2022. (5)
- C. Prepare the Statement of Financial Position as at 31 December 2022. (12)

(Total: 25 marks)

9. On 1 April 2018, Carmart Ltd purchased electronic equipment for €127,500 with a lifetime of 5 years, and an estimated total number of useable hours of 30,000. Knowing what the market for electronic equipment was like, Carmart Ltd estimated that, at the end of its productive lifespan, the equipment would realise at least €15,000 as residual value. A full year's depreciation is charged in the year of acquisition and none in the year of disposal. The following is the recorded data relating to the usage of the machine for each of the past five years:

End of reporting period :	<u>Hours</u>
31 March 2019	4,000
31 March 2020	7,400
31 March 2021	9,240
31 March 2022	7,120
31 March 2023	3,080

Required:

- A. For **each** of the above reporting periods, calculate the amount of depreciation to be charged to profits for the equipment applying:
- (i) The usage method, based on the number of hours the machine was in operation;
 - (ii) The equal instalment method of depreciation; and
 - (iii) The reducing/diminishing balance method of depreciation at the rate of 35% annually. (9)
- B. Suppose that during the year ended 31 March 2022, the machine was sold for €35,100, prepare a disposal account for **each** of the three depreciation methods used in part (A). (9)
- C. Refer to your answer in part (B), explain how it is possible to get different results when you are basically accounting for the same asset costing €127,500, that is being sold for €35,100. (7)

(Total: 25 marks)



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SECTION A

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

- Inventory is an essential asset for a business because it affects the flow of operations and reported profits.
 - Identify **TWO** reasons why it is necessary for an entity to hold adequate stock levels. (2)
 - List **FOUR** stock levels that can be calculated as part of inventory control procedures and describe how they are calculated. (2)
- Some production costs cannot be easily linked to units of output. These are the indirect production costs or production overheads. In absorption costing, the accounting procedures of allocation, apportionment and absorption are used to include an estimated amount of production overheads in unit cost.
Describe these accounting procedures with relevant examples for **each** of the three procedures. (4)
- Production costs can be classified into variable, semi-variable and fixed.
 - Distinguish between these three types of costs, providing **ONE** example of **each**. (2)
 - Why is it important to distinguish between these three types of costs? (2)
- Process costing is a method that is suitable for mass production of identical units that are produced in stages.
 - Describe the accounting underlying process costing. (2)
 - Distinguish between normal and abnormal losses, highlighting the accounting treatment. (2)
- Financial accounting and management accounting are two distinct bodies of knowledge and practice. Describe **FOUR** differences between financial and management accounting. (4)

(Total: 20 marks)

Please turn the page.

SECTION B

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

6. Settembrina Ltd was incorporated in mid-2020 and manufactures toy cars. The directors are concerned regarding the cash situation of the company and have requested the assistance of the financial controller to evaluate the forecasted cash position of the company for the final quarter of 2023.

The projected Statement of Financial Position of Settembrina Ltd as at 30 September 2023 is as follows:

	€	€	€
	Cost	Dep.	NBV
Non-current assets			
Property, plant and equipment	340,000	114,000	226,000
Current assets			
Inventories - Raw materials		125,000	
Inventories - Finished goods		116,400	
Trade receivables		124,200	
Prepayment		250	
Bank		3,400	
		<hr/>	369,250
Total assets			<hr/> 595,250
Equity			
Ordinary share capital			220,000
Retained earnings			234,650
			<hr/> 454,650
Current Liabilities			
Trade payables			140,600
			<hr/> 140,600
Total equity and liabilities			<hr/> 595,250

The directors also provided the following information:

- a) For the year 2023, each toy car is estimated to sell at €22.
- b) Production and sales in units are projected as follows:

	October	November	December
Production – units	10,800	13,100	18,700
Sales – units	9,100	12,750	16,500

- c) 55% of the sales are made to retailers. The company shall retain the same credit terms throughout 2023, that is, 30% of the sales revenue to retailers will be received during the month the sale takes place, while the remainder will be received in the following month. The remaining sales (45%) are made to individual customers for cash. Cash sales are entitled to a 5% discount.
- d) Inventory of finished goods is valued using the First-in-First-Out method of valuation.

- e) The production manager estimates that the variable production cost per unit for the final quarter of 2023 will be €1 higher when compared to the previous quarter, and is made up as follows:

Variable Production Cost per unit for Oct – Dec 2023	€
Material	10
Direct Labour	6
Production Overhead	<u>1</u>
Total	<u>17</u>

- f) Purchases of raw materials have been forecasted by the Purchasing Department to be as follows:

2023		
October	November	December
€100,200	€140,300	€220,280

The credit terms adopted by Settembrina Ltd during 2023 will continue to apply throughout the year, that is, 20% of purchases are settled in the month in which they are made, 40% of the purchases are settled in the month following the purchase, whilst the remaining 40% shall be paid in two months' time following that of purchase. In the projected statement of financial position as at 30 September 2023, the company shows the amount of €140,600 as trade payables due to suppliers of raw materials (€40,000 for August purchases; €100,600 for September purchases).

- g) All other variable production costs (except for raw material) are paid for in the month in which they are incurred.
- h) During the first week of April and October of every year, Settembrina Ltd is required to pay in advance the rental expense of €12,000 which covers the rental cost for the following 6-month period.
- i) The company is planning to upgrade the manufacturing software. The upgrade is planned to take place in November 2023 for the cost of €30,000, which the company shall pay in four monthly instalments, commencing from the month the software is installed.
- j) Property, plant and equipment are to be depreciated over a period of 10 years and the new manufacturing software over a four-year period (on a monthly basis). All the assets shall be deemed to have a nil residual value.
- k) During the year 2023, Settembrina Ltd has entered into an agreement for the amount of €250 per month with a telecommunications service provider. The amount of €250 is to be paid monthly in advance. The projected statement of financial position as at 30 September 2023 shows a prepayment of €250 which relates to telecommunication services.
- l) Besides the rental expense, telecommunication expenses and depreciation, the company is anticipating that it will incur other administrative expenses amounting to €5,200 per month. The said expenses are settled in the month in which they are incurred.

Required:

- A. Prepare a monthly cash budget for the three months ending 31 December 2023. (14)
- B. Prepare a budgeted Statement of Profit or Loss for the three months ending 31 December 2023, and a budgeted Statement of Financial Position as at that date. (16)

(Total: 30 marks)

Please turn the page.

SECTION C

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

7. Super Limited is a company that undertakes jobs according to specifications required by its customers. The company is currently considering proposals for two jobs, namely, Job X and Job Y. Due to capacity constraints, the company needs to decide which job to choose as it cannot undertake both jobs. You have been requested by the company to cost these two jobs and provide advice to assist its decision. The company has been able to extract the following information related to the two jobs:

a) Job X and Job Y make use of common materials. The expected material usage and related process for each job are as follows:

	Materials required		Price (€ per kg/ltr)
	Job X	Job Y	
Material 1 (kgs)	350	550	4.50
Material 2 (kgs)	140	680	5.75
Material 3 (ltrs)	1,050	1,590	2.80
Material 4 (ltrs)	1,890	810	1.50
Material 5 (kgs)	500	NIL	2.80

- b) Material 4 is a highly volatile liquid. Purchases have to take into consideration that 10% losses are expected during handling.
- c) The supplier of Material 5 charges a fee of €0.50/kg for its delivery if orders are less than 1,000 kgs.
- d) Since the company does not have the required resources for electrical works, it needs to sub-contract some processes for both jobs. The expected charge from the sub-contractor is of €1.50/kg of Material 1 and Material 2 used.
- e) The company employs eight skilled workers at the rate of €12 per labour hour. It also employs 12 unskilled workers with an hourly rate of €8.
- f) The estimated unskilled labour hours required for each job are 1,000 hours for Job X and 1,050 hours for Job Y.
- g) Job X requires 45 minutes of skilled labour for every unskilled labour hour assigned to the job. Job Y requires 30 minutes of skilled labour for every unskilled labour hour assigned to the job.
- h) Production overheads are absorbed into production cost at the rate of €3 per skilled labour hour.
- i) Administration overheads for the jobs are estimated as €1,500 for Job X and €1,200 for Job Y.
- j) The company's policy is to provide a margin of 25% on all jobs undertaken.

Required:

- A. Calculate the total cost and the selling price of Job X and Job Y. (20)
- B. Besides your workings in part (A), describe **TWO** other factors that Super Limited should take into consideration when deciding which job it should choose. (5)

(Total: 25 marks)

8. Insulated Limited produces three types of insulated bottles targeted at toddlers, teens and adults. The variable production costs per unit are as follows:

Product	Toddlers	Teens	Adults
	€	€	€
Direct Material	1	2	3
Direct Labour	6	8	15
Variable Overheads	2	4	5

Material is valued at €0.50 per kilogram. Due to the unstable international climate, Insulated Limited is facing restrictions with respect to the quantities of material that can be imported. Material suppliers informed the company that the maximum quantity of material that can be supplied to Insulated Limited on a yearly basis will be limited to 30,100 kilos.

The directors forecast demand for each of the company's products and the selling prices per unit for the coming financial year to be as follows:

Product	Toddlers	Teens	Adults
Demand – units	2,000	2,400	3,200
Selling price per unit - €	20	24	32

The company budgets fixed production overheads for the next financial year to be €20,000.

Required:

- Prepare a statement advising the board of directors on the most profitable production pattern to follow during the next financial year. (14)
- Prepare a profit statement showing the contribution and profit for the next financial year based on your advice in (A). (6)
- In order to satisfy customer demand, Insulated Limited is considering purchasing similar ready-made units from a European manufacturer. Describe **TWO** main factors that Insulated Limited should consider when making such a decision, explaining the importance of **each** factor. (5)

(Total: 25 marks)

Please turn the page.

9. Purple Ltd is a recently incorporated company involved in the production of coffee cups - lungo and espresso. The directors, together with the company's cost accountant, are exploring the possibility of implementing incentive schemes in order to boost production patterns.

The following information about four of the company's employees, for a particular week, has been provided to the cost accountant by the company's directors:

	Eva	Arthur	Luigi	Stella
Units produced				
- lungo cups (units)	75	70	95	80
- espresso cups (units)	68	65	70	50
Actual hours of work (hours)	44	40	42	30
Rate of pay per hour (€)	10.50	9	6.50	7.25

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 €0.15 for lungo cups and €0.10 for espresso cups.

The following is the standard time allowed per unit of product:

- 20 minutes for lungo cups; and
- 16 minutes for espresso cups.

Required:

- A. Calculate the remuneration for **each** employee using the following methods of labour remuneration:
- (i) Hourly rate (basic salary); (4)
 - (ii) Piecework (flat piece rate system); (4)
 - (iii) Piecework with the remuneration guaranteed at 85% of the basic salary (calculated in part (i)); and (6)
 - (iv) Individual bonus, whereby the employee is paid 75% of the hourly rate for **each** hour saved, in addition to the basic salary (calculated in part (i)). (6)
- B. "Employee incentive programs are designed to attract, engage, and retain talent." Comment on this statement, referring to your workings in part (A). (5)

(Total: 25 marks)