



SUBJECT: **Accounting**
DATE: 12th December 2020
TIME: 9:00 a.m. to 12:05 p.m.

This paper contains **FOUR** 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 carries 30 marks.

Section C

Answer any **ONE** question from this Section. This Section carries 25 marks.

Section D

Answer any **ONE** question from this Section. This Section 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. Explain the difference between a cash discount and a trade discount. Illustrate your answer with **ONE** example. (4)
2. a) Describe **TWO** causes of depreciation. (2)
b) Why do we make an allowance for depreciation in the accounts of a business? (2)
3. a) Distinguish between profitability and liquidity. (2)
b) Identify **TWO** ratios that are commonly used to analyse profitability and **TWO** ratios used to analyse liquidity. (2)
4. a) Why is it important to control inventory levels? (3)
b) Mention **FOUR** important inventory quantities that are calculated for inventory control purposes. (1)
5. Distinguish between time rate and piece rate, clearly highlighting the circumstances when each method of remuneration would be more suitable. Illustrate your answer with **TWO** examples. (4)

(Total: 20 marks)

SECTION B**Answer Question 6. This question carries 30 marks.**

6. The following is the trial balance extracted from the books of Chappelle plc on 30 June 2020:

	€	€
Freehold land and buildings	1,100,000	
Fixtures	137,000	
Motor vehicles	145,000	
Depreciation allowance: Buildings		132,000
Fixtures		54,000
Motor Vehicles		62,000
Cash	300	
Bank		35,400
Sales		1,470,000
Purchases	760,000	
Returns in>Returns out	22,300	58,000
Carriage in	18,400	
Carriage out	25,400	
Wages and salaries	104,000	
Electricity	31,200	
Vehicles running costs	14,300	
Other administration expenses	18,600	
Allowance for bad debts		1,800
Advertising costs	19,800	
Directors' remuneration	82,000	
Discount allowed/Discounts received	48,500	27,200
Inventories	32,500	
Debenture interest paid	3,000	
Trade receivables/Trade payables	86,400	58,800
Ordinary share capital (<i>nominal value €0.50 per share</i>)		500,000
Share premium		50,000
General reserve		55,000
Retained earnings		24,500
5% debentures		120,000
	2,648,700	2,648,700

Additional information for the year ended 30 June 2020:

- a) Inventories on 30 June 2020 were valued at cost €42,100. Included are a few items costing €3,400, which are considered obsolete and are to be scrapped.
- b) The buildings included in the freehold land and buildings account have an original cost of €300,000.
- c) Depreciation is to be provided for as follows:

Building	5% on cost
Fixtures	20% on cost
Motor vehicles	40% on net book value

It is Chapelle plc's policy to charge a full year's depreciation in the year of acquisition of a non-current asset, and none in the year of disposal.

- d) A motor vehicle bought on 1 April 2017 for €18,000 was disposed of for €5,200 during the year. No entries regarding the disposal have been made in the accounts. The proceeds received have been included in the sales account.
- e) On 30 June 2020, wages amounting to €12,000 and audit fees of €15,400 were still due; insurance of €3,200, forming part of administration expenses, was paid in advance.
- f) A detailed review of the amounts receivable from credit customers shows that €2,592 are not expected to be recovered.
- g) The directors decided to transfer €50,000 to the General Reserve and to propose a dividend of €0.04 per share.

Required:

- A. Prepare the Statement of Profit and Loss of Chapelle plc for the year ended 30 June 2020. (14)
- B. Prepare the Statement of Changes in Equity and the Statement of Financial Position as at 30 June 2020. (11)
- C. Explain why the Directors are not obliged to distribute all the profits of a company, and describe what happens to the undistributed profits. (5)

(Total: 30 marks)

Please turn the page.

SECTION C

Answer any ONE question from this Section. This section carries 25 marks.

7. The accounting year end of Keel Enterprises Ltd is 31 March. On 1 April 2019, the following balances were extracted from the books:

	€
Rent prepaid	1,500
Wages in arrears	6,800
Commission receivable in arrears	2,600
Trade receivables	82,400

Hereunder is information related to the above accounts:

- a) The annual rent for the business premises was €18,000, paid quarterly in advance on 1 May, 1 August, 1 November and 1 February. Keel Enterprises failed to pay the installment due on 1 February 2020. It is also to be noted that, through an agreement with the landlord, as from 1 November 2019, the annual rent increased to €24,000.
- b) Wages are paid on a weekly basis with two weeks in arrears. Keel Enterprises employed 17 workers but two of these retired on 1 January 2020. On the same date, wages increased by 10%. Assume that between 1 April 2019 and 31 December 2019 there were 40 whole weeks and between 1 January 2020 and 31 March 2020 there were 12 weeks. All workers receive the same wage rate.
- c) Keel Enterprises earns commission from the sale of items supplied by import agents. Amounts received for commission during the year were as follows:

	€
30 June 2019	5,600
25 October 2019	7,400
29 February 2020	8,500

On 31 March 2020, commission on net sales of €48,000 were still outstanding. Commission earned by Keel Enterprises represents 10% of net sales.

- d) All sales of Keel Enterprises Ltd are on credit. Receipts from customers during the year amounted to €219,000 and discounts allowed €1,000. Sales returns during the year totalled €13,000. There were some trade payable balances which were set off against trade receivable balances during the year. Trade receivables on 31 March 2020 amounted to €92,500.

Required:

- A. Prepare the following ledger accounts, showing the transfers to the Statement of Profit and Loss for the year ended 31 March 2020, and balances to be carried forward as at that year end:
 - i. Rent account; (5)
 - ii. Wages account; (5)
 - iii. Commission Receivable account; and (5)
 - iv. Trade Receivables Control account. (5)
- B. Show extracts from the Statement of Financial Position of Keel Enterprises Ltd as at 31 March 2020. (5)

(Total: 25 marks)

8. Alice Borg is the proprietor of Chic Images, providing photographic services for the fashion industry. Alice’s keeping of the enterprise’s financial records leaves much to be desired but since she is now considering expansion plans, she asks you to convert her accounts to acceptable accounting standards. You are provided with the following details for the year ended 31 December 2019:

Bank Account summary:		€
Receipts:	From clients	266,500
	Sale of old equipment	5,400
Payments:	To credit suppliers of direct materials	163,820
	Rent	8,000
	Wages to casual helpers	15,000
	Hire of locations	4,400
	Purchase of equipment	22,000
	Cash withdrawn	11,300
	Personal cheques	26,300
	Travelling costs	3,600
	Sundries	1,100

You ascertain the following opening and closing balances:

	1 January 2019	31 December 2019
	€	€
Bank	(credit balance) 5,400	?
Inventory of direct materials	13,600	19,200
Trade payables for direct materials	9,600	24,780
Trade receivables	4,700	9,600
Non-current assets	74,200	?
Rent owing	1,200	800
Wages accrued	960	2,100

You also deduce the following:

- a) The receipts from the sale of old equipment concerned a professional camera bought for €11,200 but which had accumulated total depreciation of €3,800.
- b) €5,200 of the cash withdrawn was used for advertising purposes. €2,300 of these were for a television promotional campaign appearing after 31 December 2019.
- c) The rest of the cash withdrawn was used partly for cash purchases of direct materials and partly for personal purposes.
- d) Discounts received amounted to €17,600, while discounts allowed totalled €13,400.
- e) Alice makes a uniform gross profit mark-up of 50% on all service charges. Direct materials are the only direct costs incurred.
- f) All receipts are deposited in the bank on a daily basis.
- g) Equipment is depreciated at 20% using the reducing balance method.
- h) During the year, balances amounting to €3,200 were written off from trade receivables.

Required:

- A. Prepare the Trade Receivables Ledger Control account, the Trade Payables Ledger Control account, and the Statement of Profit and Loss of Chic Images for the year ended 31 December 2019. (16)
- B. Draft the Statement of Financial Position as at 31 December 2019. (9)

(Total: 25 marks)

SECTION D

Answer any ONE question from this Section. This section carries 25 marks.

9. The sales team of Gileys, an enterprise producing one standard product, is reviewing the plans for the next quarter. The following are the standard costs per unit produced and the budgeted fixed overheads for the next quarter:

	€
Direct labour per unit	15
Direct material per unit	18
Other direct costs per unit	8
Depreciation	24,500
Rent	18,000
Other fixed costs	22,500

Units are sold at €50 each and 10,000 units are normally sold per quarter, though the enterprise has the capacity to produce more units.

In line with Gileys' strategy to make the operation more profitable, the sales team presented to management the following alternatives for the next quarter:

- a) Increase the sales price by 10%. This is envisaged to result in a drop of 30% in the sales volume. With the resulting decrease in purchases of material, trade discounts would be lost and direct material cost per unit would increase to €19.
- b) Reduce the selling price by 5%. This would increase sales by 3,000 units, only if a once-only promotional campaign costing €6,000 is effectively carried out.

Required:

- A. Calculate, for the present operations and for suggestions (a) and (b) made by the sales team:
 - i. The contribution per unit and the break-even point in units of sales (12)
 - ii. The resulting profit. (6)
- B. One of the managers is suggesting that additional equipment should be leased at €18,000 annually. The new equipment would result in saving in wages of €2 per unit of production. If the manager's suggestion to lease additional equipment is taken up, how many units must be sold for the enterprise to realize a profit of €30,000 in the next quarter, for all three situations considered in (A)? (7)

(Total: 25 marks)

10. Dale plc manufactures custom-built furniture according to customers' specifications. Each order passes through three departments, namely, cutting, assembly and finishing. These three departments are in turn serviced by a maintenance department.

The following are the budgeted production overheads for the next three months:

	€
Electricity	28,000
Indirect wages	37,000
Depreciation	27,000

Further details about the activity and costs in each department for the next quarter are provided:

	Cutting	Assembly	Finishing	Maintenance
Electricity units	36,000	15,000	24,000	9,000
Indirect labour cost (€)	9,500	11,500	11,000	5,000
Non-current assets net book value (€)	280,000	120,000	140,000	--
Machine hours	18,000	6,000	8,000	--
Direct labour hours	8,000	14,000	10,000	--

The costs of the maintenance department are allocated to the three production departments in the ratio of machine hours. Direct Labour in the Cutting, Assembly and Finishing Departments costs €10, €9 and €12 per hour, respectively.

During the same three-month period, Job WR2 was carried out, using direct material costing €4,600, and logging the following times in each production department:

	Cutting	Assembly	Finishing
Machine hours	250	60	80
Labour hours	60	180	120

Required:

- A. For each of the three production departments, compute:
 - i. a machine hour overhead absorption rate; and
 - ii. a labour hour overhead absorption rate. (13)
- B. Using overhead absorption rates (correct to the nearest two decimal places) you deem appropriate from those calculated in (A), compute the amount Dale plc should charge the customer for Job WR2 to realize a profit margin of 20%. (12)

(Total: 25 marks)