



SUBJECT: **Accounting**
DATE: 5th May 2022
TIME: 4:00 p.m. to 7:05 p.m.

This paper contains **FOUR** 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 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 any FIVE questions in this section. Each question carries 4 marks.

1. Mary plans to start a business providing IT services. She cannot understand why the bank has asked her to start keeping accounting records for the business. Briefly explain to Mary the need for keeping proper accounting records. (4)
2. Identify **FOUR** books of prime entry and briefly explain the purpose of **each**. (4)
3. What are departmental financial statements? Provide **ONE** example of a business that would benefit from the preparation of departmental financial statements, and list **TWO** benefits for the business. (4)
4. Non-current assets are capitalised in the statement of financial position, and are depreciated over their expected useful life.
 - a) Define depreciation and mention the underlying accounting concept. (2)
 - b) Describe **TWO** factors that are considered to cause non-current assets to depreciate. (2)
5. What is a Trade Receivables Control Account? What are the sources of the information contained in this account? (4)
6. Alex operates an online retail shop selling renowned brands of perfumes. He keeps the inventory in a rented garage. His accountant wants to know whether Alex is valuing his inventory using FIFO or AVCO. Explain to Alex what these acronyms mean and explain the effect of **each** inventory valuation method on Alex's reported profit, in times of rising prices. (4)
7. Explain the difference between allocation, apportionment and absorption of overheads. (4)

(Total: 20 marks)

SECTION B**Answer Question 8. This question carries 30 marks.**

8. Bolt Engineering plc extracted the following Trial Balance for the year ended 31 December 2021:

	€	€
Plant and Machinery/Depreciation allowance	840,000	184,000
Office Equipment/Depreciation allowance	430,000	105,000
Motor Vehicles/Depreciation allowance	195,000	27,000
Purchases raw materials	249,000	
Direct wages	165,000	
Indirect wages	35,000	
Salaries	44,000	
Inventories: Raw materials	44,200	
Finished goods	24,000	
Work-in-progress	18,000	
Loose tools	6,700	
Purchase of loose tools	3,800	
Water and Electricity	42,700	
Rent	36,000	
Insurance	22,000	
Carriage in	8,600	
Carriage out	12,600	
Returns in>Returns out	61,000	32,000
Vehicles running costs	15,400	
Office expenses	24,300	
Discounts allowed/Discounts received	12,000	25,200
Trade receivables/Trade payables	38,000	41,400
Bank	45,450	
Cash	6,250	
Sales		900,000
Share Capital: Ordinary shares of €1 each		800,000
Share premium		100,000
General reserve		50,000
Retained earnings		16,150
3½% Debentures		100,000
Debenture interest	1,750	
	2,380,750	2,380,750

Additional information for the year ended 31 December 2021:

a) Closing inventories:

	€
Raw materials	84,600
Work-in-progress	38,300
Finished goods	98,000
Loose tools (<i>at valuation</i>)	7,900

b) Provide for depreciation as follows:

Plant & Machinery	10% on cost
Office Equipment and Motor vehicles	20% on written down value

c) Accruals:

	€
Direct wages	14,500
Indirect factory wages	4,000
Water and Electricity	5,180
Rent	8,000

d) Prepayments: Insurance €6,400

e) It is to be noted that €14,000 of rent expenditure was for the warehouse used for the storage of raw materials. The remainder was to be apportioned 20% to offices and the rest to the factory.

f) Other apportionments:

	Factory	Office
Insurance	4	1
Water and Electricity	5	2

g) Although a proportion of the goods purchased and sold were transported by outside contractors, most were carried by the business' own vehicles. It was estimated that 40% of all motor expenses pertained to carriage in; 50% for carriage out and the rest for administration purposes.

Required:

- A. Highlight the difference between a direct and an indirect cost. Why is this distinction important for Bolt Engineering plc? (5)
- B. For Bolt Engineering plc for the year ended 31 December 2021, you are required to prepare
- i. the Manufacturing account; (10)
 - ii. the Statement of Profit and Loss; and (7)
 - iii. the Statement of Financial Position. (8)

(Total: 30 marks)

Please turn the page.

SECTION C

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

9. The following balances were extracted from the books of Crabpot Trading at 31 March 2022, after the trainee accountant prepared a draft Statement of Profit and Loss for the year:

Draft Trial Balance	€	€
	Dr	Cr
Non-current Assets	126,130	
Inventories	21,200	
Trade Receivables	16,300	
Cash	290	
Trade Payables		21,240
Accruals		420
Bank Overdraft		6,900
Capital		100,000
Profit		51,760
Drawings	15,000	
Difference in books	1,400	
	<u>180,320</u>	<u>180,320</u>

A re-examination of the books revealed the following:

- A total of €2,430 discounts received were posted to discounts allowed account.
- A sale of €15,100 had been entered correctly in the personal account but credited to the nominal account as €11,500.
- Bank charges €840 had been correctly entered in the cashbook but no other entry was made.
- Withdrawals made by the owner totalling €2,300 were only entered in the cashbook.
- A credit note of €1,320 received from a supplier was considered as a purchase and entered in the books accordingly.
- A van was sold for €2,300, which amount was entered in the cashbook and credited to sales. No other entry was made. This transaction had resulted in a loss on disposal of €700.
- Returns Inwards of €690 were posted as €960 to Returns Outwards, though correctly entered in the personal account.
- €300 of rent were prepaid for the next accounting period and wages amounting to €2,150 were still due on 31 March 2022. The required year-end adjustments were not carried out.
- A page in the sales daybook was over-added by €3,250 and a page in the purchases daybook was undercast by €1,820.

Required:

- Prepare journal entries for the correction of any errors you deem necessary. Narrations are not required; (9)
- Prepare the Suspense Account; and (4)
- Draw a statement of corrected profit. (12)

(Total: 25 marks)

10. Toni Caruana does not maintain double-entry records, but has produced the following opening and closing balances of assets and liabilities for the year to 31 December 2021:

	1 Jan. 2021	31 Dec. 2021
	€	€
Bank (<i>credit balance</i>)	4,850	?
Cash balance	240	?
Inventories	6,700	9,460
Trade receivables	11,800	15,350
Trade payables	14,800	16,650
Expenses prepaid	2,800	--
Expenses accrued	--	4,640
Vehicles at net book value (<i>Purchased 1 January 2018</i>)	5,000	?

Caruana managed to record most of his receipts and payments during the year, but failed to keep an accurate record of his cash sales:

	€	€
	Bank	Cash
Receipts from credit sales	124,040	--
Payments trade payables	105,600	--
Purchases	--	4,250
Expenses	17,520	768
Drawings	6,800	2,650
Deposit on new van	5,000	--
Cash banked		2,800

Additional information relating to the year 2021:

- a) The new van purchased cost €18,000. The amount of €5,000 was paid as a deposit by cheque. The balance is to be paid in 2022. Caruana decided to depreciate the vans on a straight-line basis over 5 years with no residual value. The net book value of his old van is to be depreciated over its estimated remaining two years useful life.
- b) Credit notes received totalled €8,200 and those sent to customers amounted to €11,300.
- c) Discounts allowed amounted to €12,300 and those received were €14,200.
- d) A customer owing the business €1,460 has defaulted with no possibility of recovering the amount. The customer's balance is included in total receivables on 31 December 2021.
- e) During the current year, Caruana withdrew goods from inventories costing €1,400 for his own personal use.
- f) Caruana makes a uniform profit margin of 25% on all sales.

Required:

- A. Calculate the following for the year ended 31 December 2021:
 - i. total purchases;
 - ii. total sales; and
 - iii. the amount of cash sales. (5)
- B. Prepare for Toni Caruana:
 - i. the Statement of Profit and Loss for the year ended 31 December 2021; and (14)
 - ii. the Statement of Financial Position as at the same date. (6)

(Total: 25 marks)

Please turn the page.

11. Alloy Garage, with financial year ending on 30 June, operates a small car hire business.

At 1 July 2021, the following motor vehicles were on its books:

Motor Vehicle	Original Cost	Date of Purchase
	€	
Saloon Car	22,000	1 April 2014
Limousine A	35,000	1 May 2018
Limousine B	42,000	1 July 2019

Alloy Garage carried out maintenance and small repair works in-house and consequently, on the same date, had also a quantity of loose tools with a total valuation of €3,500.

Alloy Garage employs two different methods of depreciation for its vehicles: Limousine A and Limousine B are depreciated at the rate of 40% on net book value. The saloon car, the first vehicle the garage started business with, was written off over 5 years with a tenth of its original cost as residual value.

A full year's depreciation is charged in the year of purchase, but none in the year of sale.

During the year to 30 June 2022, the following occurred:

- a) The saloon car was traded in for €3,200 against a recovery car costing €52,700. As this was an electric vehicle, it was envisaged that the car had a lifespan of six years with a residual value of 20% of its cost. A down payment of €7,000 was added to the value of the old vehicle, with the remainder to be settled in four equal instalments on 30 September 2022, 31 December 2022, 31 March 2023 and 30 June 2023.
- b) Limousine B was involved in an accident and had to be written off. The insurance company paid €18,000 in compensation. This amount, together with an additional amount of €30,000, was used to purchase a second hand American vintage limousine, Limousine C. Alloy Garage decided to maintain the same depreciation rate for all its limousines, that is, at 40% reducing balance method.
- c) During the year, the business spent €2,100 in acquiring new loose tools. It was estimated that, at the end of the year, the value of all loose tools was €4,300.

Required:

- A. Prepare the following accounts, including transfers to the Statement of Profit and Loss and closing balances, for the year ended 30 June 2022:
 - i. saloon account and saloon depreciation account;
 - ii. the limousines account and limousines depreciation account;
 - iii. the vehicle disposal account; and
 - iv. the loose tools account. (21)
- B. Prepare an extract from the Statement of Financial Position as at 30 June 2022, showing the balances related to these transactions. (4)

(Total: 25 marks)

SECTION D

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

12. Castel Productions is a manufacturing company producing specialised furniture units. The company is divided into three production departments: cutting, assembly and finishing. These departments are serviced by a maintenance department.

The budgeted factory overheads for the year ended 31 December 2021 were as follows:

	€
Indirect labour	45,720
Electricity	28,836
Insurance of buildings	26,572
Rent	32,760
Canteen expenses	18,720
Depreciation of machinery	21,830

The following data is also available:

	Cutting	Assembly	Finishing	Maintenance
Number of employees	33	27	9	3
Electricity units	36,000	9,000	6,300	2,100
Floor area (sq. m.)	15,000	12,000	7,000	2,400
Machinery cost (€)	42,000	22,000	10,000	-
Machine hours	34,000	7,000	1,000	-
Labour hours	12,000	21,300	11,700	-

The costs of the maintenance department are allocated to the other departments as follows:

Cutting	Assembly	Finishing
50%	30%	20%

During the current period, Job ZX4 was completed with the following information:

	Direct Material Cost	Direct Labour Cost	Machine Hours	Labour Hours
	€	€		
Cutting	2,600	1,750	125	68
Assembly	1,400	2300	75	110
Finishing	25	120	32	65

It is the company's policy to add a 25% profit on sales to determine the invoice price of a job.

Required:

- A. Apportion the production overheads across the production departments and calculate an overhead absorption rate for **each** department based on:
- labour hours; and
 - machine hours. (15)
- B. Using the overhead absorption rates you deem appropriate from those calculated in (A), determine the production cost and invoice price of Job ZX4. (10)

(Total: 25 marks)

Please turn the page.

13. The following data was extracted from the records of Tappett Ltd regarding its three employees with three different levels of skills reflected in their remuneration agreement. Each of the workers produces a slightly different product.

The standard working week is of 40 hours, but overtime is required to keep up with demand. In a particular week, the following hours and output were recorded for the three workers:

	Abela	Borg	Casha
Hours worked	48	40	45
Standard wage rate per hour (€)	9	7	8
Production in units	160	112	120
Minutes allowed per unit of production	20	18	25

The current remuneration agreements are on an hourly (time rate) basis, with overtime rates set at 1½ times normal rates.

The Production Director of Tappett Ltd is unhappy with the output and he is proposing to change the present remuneration package. He puts forward the following two proposals:

Proposal 1

- Remuneration to be based on a standard piece rate per unit of €3 for Abela; €2.80 for Borg; and €2.75 for Casha.
- Any units produced above the time allowed to be paid at 160% the standard piece rate per unit.
- The guaranteed minimum wage per week is: €380 for Abela; €300 for Borg; and €370 for Casha.

Proposal 2

- A bonus scheme where the bonus is equal to 80% of time saved calculated on an hourly basis. The bonus is paid in addition to the basic pay as per existing remuneration agreement (excluding the overtime premium).

Required:

- A. Calculate wages received under current conditions for Abela, Borg and Casha. (7)
- B. For Abela, Borg and Casha, compute what **each** employee would receive as wages under:
 - i. Proposal 1; and (9)
 - ii. Proposal 2. (9)

(Total: 25 marks)