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SUBJECT: **Accounting**  
DATE: 4<sup>th</sup> May 2023  
TIME: 9:00 a.m. to 12:05 p.m.

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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.

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**SECTION A**

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

1. (a) Briefly describe the main items that feature in a manufacturing account. (2)  
(b) When is a manufacturing account required and why? (2)
2. The equity of a company is made up of share capital and reserves.  
(a) Distinguish between authorised and issued share capital. (2)  
(b) Describe **ONE** reason why it is important to make a distinction between capital and revenue reserves, and provide **ONE** example of **each** type of reserve. (2)
3. Liam has been appointed as union representative by his colleagues. During initial meetings with the management, Liam realized that he was not sure what the terms 'guaranteed piecework' and 'bonus on time saved' actually mean, and how these could be beneficial for the employer. Describe these **TWO** methods of remuneration and explain why they could prove advantageous for the employer. (4)
4. Inventory can be valued using either FIFO or AVCO.  
(a) What do these acronyms mean? (1)  
(b) Explain the effect of **each** inventory valuation method on an entity's reported profit in times of rising prices. (3)
5. Lara is very excited about her new job as an IT analyst. Her first assignment is on a management accounting package. She has asked you to define the following types of costs, providing **ONE** example for **each** type:  
(a) Direct and indirect cost. (2)  
(b) Variable and fixed cost. (2)

**(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 a sole trader, operating under the name of Mercury Trading, on 31 December 2022:

	€	€
Capital		240,000
Purchases	205,000	
Carriage in	7,348	
Carriage out	10,400	
Sales		582,347
Returns in>Returns out	18,324	21,400
Sales/Purchases ledgers balances	17,850	32,500
Administration expenses	51,420	
Rent	6,300	
Miscellaneous expenses	15,500	
Motor Vehicles running costs	21,400	
Electricity	16,500	
Discount Allowed/Received	38,100	11,400
Premises/depreciation allowance	240,000	9,400
Furniture & fixtures/depreciation allowance	32,000	14,700
Vehicles/depreciation allowance	85,000	22,310
Inventories	24,800	
Insurance	16,300	
Bad debts	7,600	
Allowance for doubtful debts		850
Office expenses	19,760	
Advertising	11,300	
Drawings	30,200	
Commission payable to Sales force	1,200	
Sales force wages	70,398	
Cash	4,320	
Bank		13,533
Suspense Account		2,580
	951,020	951,020

Additional information for the year ended 31 December 2022:

- a) Inventories at 31 December 2022 amounted to €32,210.
- b) Non current asset are to be depreciated as follows:
- |                      |  |
|----------------------|--|
| Premises             | 5% straight line method (note that €100,000 of Premises is the value of land). |
| Furniture & fixtures | 15% on cost  |
| Vehicles             | 40% on net book value  |
- c) A customer owing €3,400 is expected to default, and it is estimated that only 25% of the amount due would be recovered and the balance is an expected loss.
- d) Purchase invoices amounting to €15,600 included a trade discount of 20% by mistake. The supplier is claiming the difference.
- e) Sales force wages amounting to €1,352 are owing at year end. Sales personnel are also entitled to a commission of 2% of net sales. Part of the estimated total commission is paid midway through the year. The remainder is still due on 31 December 2022.
- f) On 31 December 2022, administration expenses €3,400 and electricity expenses €2,200 were still due, while insurance was prepaid by €1,800.
- g) The bank charged interest €640 on the overdraft. This was still due and was not recorded in the cash book.
- h) The amount of furniture and fixtures in the trial balance includes a cabinet costing €1,280 purchased for the owner's residence.
- i) A debt of €480, written off during the previous twelve months was recovered. Only the receipt in the cash book was recorded.
- j) A vehicle, original cost €8,200, with a book value of €3,290, was disposed of for €2,100 during the year. The only entry made was of the disposal proceeds in the cashbook.

**Required:**

- A. Prepare the Statement of Profit or Loss of Mercury Trading for the year ended 31 December 2022. (15)
- B. Prepare the Statement of Financial Position as at 31 December 2022. (10)
- C. Note (b) above provides the value of land included in premises. Explain why this information is necessary. (5)

**(Total: 30 marks)**

***Please turn the page.***

**SECTION C**

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

7. The following are the Financial Statements of Borg Accessories Ltd, a small trading company, for the year ended 31 March 2023, with comparative figures:

**Statement of Financial Position  
as at 31 March**

	<b>2023</b>	<b>2022</b>
	<b>€</b>	<b>€</b>
Non-current Assets ( <i>Net book value</i> )	155,000	84,700
Current Assets: Inventories	18,600	15,400
Trade Receivables	33,240	12,800
Bank	--	4,400
	<u>206,840</u>	<u>117,300</u>
Share Capital:		
€1 Ordinary shares	70,000	70,000
Share Premium	25,000	25,000
Retained Earnings	47,800	6,300
Long-term liabilities:		
6% Loan	40,000	-
Current Liabilities:		
Trade Payables	19,000	16,000
Loan interest	1,200	-
Bank Overdraft	3,840	-
	<u>206,840</u>	<u>117,300</u>

**Statement of Profit or Loss  
for the year ended 31 March**

	<b>2023</b>		<b>2022</b>	
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Credit Sales		150,000		144,000
Cash Sales		42,000		36,000
Total Sales		<u>192,000</u>		<u>180,000</u>
Cost of sales: Opening inventories	15,400		12,600	
Purchases	106,200		95,800	
Closing inventories	(18,600)	(103,000)	(15,400)	(93,000)
Gross Profit		<u>89,000</u>		<u>87,000</u>
Administration expenses	19,740		32,100	
Selling expenses	25,360		22,400	
Financial expenses	2,400		--	
		<u>(47,500)</u>		<u>(54,500)</u>
Net Profit		<u>41,500</u>		<u>32,500</u>

**Required:**

- A. Using the information provided, compute the following ratios for each year:
- i) The gross profit margin;
  - ii) The Return on Capital Employed (ROCE);
  - iii) Inventory turnover;
  - iv) Current Ratio;
  - v) Acid Test Ratio; and
  - vi) Collection Period of Receivables. (20)
- B. Comment on the changes in profitability, efficiency and liquidity of Borg Accessories Ltd. (5)

**(Total: 25 marks)**

**8.** Palander, a retailer with sole ownership, records receipts and payments in a cash book, and keeps most of his invoices and credit notes in separate files. He has decided to keep proper books of accounts and provides the following information:

a) A summary of his bank transactions for the year ended 31 December 2022:

	€		€
Receipts	233,625	Balance b/d	4,200
Loan	50,000	Trade payables	196,870
		Rent	3,500
		Wages	28,600
		General expenses	4,800
		Motor Vehicle	8,700
		Carriage in	3,500

- b) Palander’s cash transactions included weekly drawings of €320, part-time cleaner’s monthly wages of €190 and miscellaneous expenses averaging €250 per month. He had also made some cash purchases, but had forgotten to keep track of the amount.
- c) From the filed sales invoices it was calculated that cash received from sales and not deposited in the bank totalled €34,080. Credit notes issued to customers amounted to €13,500.
- d) The loan was obtained exactly midway through the twelve months ended 31 December 2022. The loan carries interest of 8% per annum, which has not been paid.
- e) It could be ascertained that, during the year, Palander had received credit notes from suppliers totalling €9,520. One supplier, who happened to be also a customer, had an invoice for €1,430 of purchases set off against his credit sales.
- f) Palander has allowed total discounts of €7,600 on receipts from credit sales. He has also received discounts amounting to €8,200 from his suppliers.
- g) Apart from his weekly cash drawings, Palander has taken goods from inventories costing €740 for his personal use.

***Please turn the page.***

- h) Palander was certain that a debtor balance of €260, which had been written off during 2021, was recovered in 2022. On the other hand, an amount of €1,200 was written off during the current period.
- i) The following are Pallander's assets and liabilities:

	1 January 2022	31 December 2022
	€	€
Equipment at book value	14,500	?
Motor Vehicles at book value	11,300	?
Trade receivables	14,500	18,900
Trade payables	9,400	15,300
Rent due	560	--
Rent prepaid	--	380
Wages owing	1,750	2,100
Inventories	9,300	11,400
Cash	870	430
Bank overdraft	4,200	?

- j) The depreciation charge for 2022 is €3,200 for equipment and €4,500 for motor vehicles.

**Required:**

- A. Calculate Palander's opening capital as at 1 January 2022. (2)
- B. Prepare the Purchase Ledger Control Account and the Sales Ledger Control Account. Determine total purchases and total sales for the year 2022. (9)
- C. For the period ended 31 December 2022, prepare the Statement of Profit or Loss in as much detail as possible. (14)

**(Total: 25 marks)**

**SECTION D**

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

9. Molar, a small manufacturing enterprise providing goods for the dentistry sector, is in the process of preparing its cash budget for the four months ending 30 September 2023.

The data at its disposal includes the following:

a)

	April	May	June	July	August	September	October	November
Sales in units	150	180	210	190	140	120	100	130
Production in units	140	160	190	150	120	120	120	140

- b) Selling price per unit is set at €75.
- c) 10% of sales are for cash. 40% of credit sales settle in the month following the sale and the rest two months after the sale.
- d) Material used in the production of each unit costs €22. The material is purchased one month prior to production and paid for in two equal instalments (one month and two months after purchase).
- e) Direct labour per unit amounts to €12. Direct labour is paid in the month of production. Other variable costs of €8 per unit are paid for in the month after production.
- f) In August, rent of €1,200 falls due and is to be settled immediately on due date. The other fixed cost is depreciation, estimated at €500 monthly.
- g) Molar is projecting a bank overdraft balance of €8,360 on 1 June 2023.

**Required:**

- A. Prepare a cash budget showing the monthly bank balance from June to September 2023. (20)
- B. Extract the balances of trade receivables and trade payables at the end of September 2023. (5)

**(Total: 25 marks)**

***Please turn the page.***

- 10.** Karma plc produces a single product with a manufacturing profile that includes the following values:

	<b>€</b>
Variable costs per unit:	
Material	45
Labour	28
Overheads	17
Current selling price per unit	105
Fixed costs per annum of Karma plc	54,000

**Required:**

- A. Calculate the number of units Karma must sell in one year to break-even. (5)
- B. Calculate the profit or loss realized if the market annual demand for the product was estimated at 5,000 units. (4)
- C. Using the above information, draw a break-even chart showing clearly the break-even point level of sales, the profit or loss at sales of 5,000 units, and the margin of safety at that level of sales. (6)
- D. If total variable costs per unit were increased by 10%, how many more units must be sold to retain the same level of profits as before the rise in variable costs per unit? (10)

**(Total: 25 marks)**