L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 FIRST SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	19th May 2026
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 workings 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) Define depreciation, identifying **TWO** causes. (2)
   b) Explain the purpose of providing for depreciation in the accounts of a business. (2)

2. a) Distinguish between 'ordinary membership fees' and 'life membership fees'. (2)
   b) Describe how the fees mentioned in 2(a) are accounted for in the financial records of a club and explain why. (2)

3. Describe the difference between a 'provision' and a 'reserve', providing **TWO** examples of **each**. (4)

4. What is the difference between a trade discount and a cash discount? Explain your answer with an example. (4)

5. Briefly describe the following accounting concepts, explaining the importance of **each**:
   a) Going concern; and (2)
   b) Prudence. (2)

(Total: 20 marks)

Please turn the page.

SECTION B

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

6. Comfo Casa Ltd, a local furniture manufacturer, extracted the following trial balance on 31 December 2025:

	Dr	Cr
	€	**€**
Ordinary share capital		800,000
Share premium		102,000
Revaluation reserve		50,000
Retained earnings		302,400
5% bank loan 2034		200,000
Sales		2,078,000
Purchases of raw materials	1,145,700	
Direct factory wages	168,000	
Supervisors' wages	68,515	
Hire of special machinery	45,600	
Maintenance of machinery	13,400	
Water and electricity	35,500	
Insurance	12,600	
Salaries of administrative staff	42,800	
Wages and salaries of sales staff	68,500	
Administration expenses	47,600	
Selling and distribution costs	29,500	
Property (Land element €700,000)/depreciation allowance	1,000,000	12,000
Machinery/depreciation allowance	598,000	179,600
Motor Vehicles/depreciation allowance	104,000	45,500
Office Equipment/depreciation allowance	58,900	11,780
Inventories:		
Raw materials	45,600	
Work-in-progress	44,200	
Finished goods	44,000	
Carriage in	89,500	
Trade receivables/payables	32,350	129,370
Irrecoverable debts	48,500	
Rental income		12,600
Interest on bank loan	5,000	
Cash and cash bank	179,485	
Provision for unrealised profit		4,000
	3,927,250	**3,927,250**

Other information available on 31 December 2025 includes:

a) It is company policy to transfer manufactured goods to trading at cost plus 10%.

b) Inventories on 31 December 2025:

	€
Raw materials	34,800
Work-in-progress	72,320
Finished goods	55,000

c) In November, the company purchased a new machine for €150,000 and paid for it by cheque. This purchase has not yet been recorded in the accounts. There were no further purchases or disposals of non-current assets during the year.

d) Depreciation is to be charged as follows:

Buildings	2% on cost
Machinery	20% on cost
Motor Vehicles	25% on written down value
Office Equipment	10% on cost

A full year's depreciation is charged in the year of purchase and none in the year of disposal.

e) Rental income still due at 31 December 2025 amounted to €3,150.

f) Insurance was prepaid by €1,800 on 31 December 2025.

g) Water and electricity costs still due at year end amounted to €6,900.

h) The following expenses need to be apportioned as indicated:

	Manufacturing	**Profit or Loss**
Insurance	70%	30%
Water and electricity	80%	20%
Depreciation on motor vehicles	20%	80%
Depreciation on buildings	90%	10%

i) The company is being sued by a customer for €120,000 for breach of contract over a cancelled order. Comfo Casa Ltd has obtained legal opinion that there is a 25% chance that the company will lose the case. No entries have yet been made to account for this lawsuit.

Required:

A. Prepare the Manufacturing Account and the Statement of Profit or Loss of Comfo Casa Ltd for the year ended 31 December 2025; and (18)

B. The Statement of Financial Position as at 31 December 2025. (12)

(Total: 30 marks)

Please turn the page.

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

7. The finance director of PQ Medik plc has provided the following statements of financial position as at 31 December 2025 and 2024:

PQ Medik plc
Statement of Financial Position as at 31 December

	2025	2024
	€'000	**€'000**
Assets		
Non-current assets		
Property, plant and equipment	710	506
Development expenditure	193	40
	903	546
Current assets		
Inventory	48	36
Trade receivables	17	39
Cash	20	14
	85	89
Total assets	**988**	**635**
Equity and liabilities		
Equity		
Ordinary share capital (€1 shares)	150	100
Share premium	25	0
Revaluation reserve	216	30
Retained earnings	80	67
Total equity	471	197
Non-current liabilities		
5% bank loan 2035	190	250
Current liabilities		
Bank overdraft	201	72
Trade payables	108	85
Taxation due	18	31
	327	188
Total liabilities	517	438
Total equity and liabilities	**988**	**635**

The following information is also available for the year ended 31 December 2025:

a) Property, plant and equipment: Carrying values as at

	31-Dec-25	31-Dec-24
	€ '000	€'000
Land and buildings	532	358
Machinery and equipment	178	148
	710	506

On 1 January 2025, the directors decided to revalue the land and buildings and approved the report of an independent surveyor who valued the land at €304,000 and the buildings at €240,000. The remaining life of the buildings on 1 January 2025 was 20 years. There were no additions or disposals of land and buildings during 2025.

On 1 April 2025, the company purchased a new machine at a cost of €67,000. Further costs incurred to install the machine were €10,000. On 1 July 2025, the company disposed of a machine, which was purchased on 1 January 2024, at a cost of €30,000. Disposal proceeds were €35,000. Machinery and equipment is depreciated at 10% per annum, on a reducing balance. A full year's depreciation is charged in the year of purchase but no depreciation is charged in the year of disposal.

b) On 1 April 2025, the company made a one for two rights issue at a premium of €0.50 per share. All shares were taken up by the current shareholders.

c) During the financial year 2024, the company commenced the development stage of a project to produce a new dietary supplement. The project is still in progress. No amortisation (depreciation) was charged on development costs in the current year.

d) Bank overdraft interest, charged in the statement of profit or loss for the year 2025 and paid during that year, was €4,000.

e) On 30 June 2025, the company repaid €60,000 of its loan to the bank. All interest on this loan has been correctly charged to the statement of profit or loss and paid by the end of the financial year.

f) An interim dividend of €0.12 per ordinary share was declared. This was paid on 30 November 2025 to shareholders on the register at 31 October 2025.

g) Tax paid during the year ended 31 December 2025 was €31,000.

Required:

A. Prepare the Statement of Cash Flows of PQ Medik plc for the year ended 31 December 2025. (20)

B. Explain why the change in cash and cash equivalents during a financial period may differ from the reported profit of the same period. (5)

(Total: 25 marks)

Please turn the page.

8. The finance director of NY Sky plc has provided you with the following information for the year ended 30 September 2025:

a) Opening balances as at 1 October 2024: -

Ordinary share capital (€0.50 nominal value per share)	€900,000
Share premium	€380,000
General reserves	€150,000
Retained earnings	€496,000

b) On 16 October 2024, a transfer of €8,000 was made from retained earnings to general reserves.

c) The Annual General Meeting held on 4 November 2024 approved a final dividend of 5c per share for the financial year ended 30 September 2024 for shares in issue at that date. The dividend was paid on 5 November 2024.

d) On 31 March 2025, property that had been purchased two years before for €800,000 (land €450,000, buildings €350,000), was revalued. The new value of both land and buildings was 30% above purchase price. Accumulated depreciation on the buildings as at 31 March 2025 was €17,500. The remaining life of the property was ten years at the date of revaluation. Depreciation is charged pro-rata in the year of acquisition and disposal. No depreciation on buildings was provided for after the revaluation on 31 March 2025.

e) On 10 April 2025, a bonus issue of 1 share for every 4 shares in issue was made, utilising the share premium account.

f) On 1 July 2025, the company made a rights issue of 1 share for every 10 shares in issue at that date, at €1.50 per share. All shares were taken up by the current shareholders.

g) The profit for the year ended 30 September 2025, prior to adjusting for the depreciation expense for the last six months in note (d) above, was €98,500. A final dividend of 8c per share was proposed on all shares in issue at year-end.

Required:

A. Prepare journal entries for transactions (b) to (g) above, where required. Narratives are **not** required. (15)

B. Prepare NY Sky plc's statement of changes in equity for the year ended 30 September 2025. (7)

C. NY Sky plc utilised its share premium account to make a bonus issue of shares. State **TWO** other purposes for which the share premium account may be used. (3)

(Total: 25 marks)

9. For the financial year ended 31 December 2025, Nic Valley plc reported results in line with its internal performance targets. The management closely monitors the following key financial ratios:

Financial ratio	**Target**
Gross profit margin	40%
Net profit margin	10%
Inventory turnover	8 times
Return on capital employed	15%
Utilisation of capital employed	150%
Current ratio	1.5 : 1
Trade receivables collection period	73 days
Trade payables payment period	73 days
Ratio of administration expenses to selling and distribution expenses	3 : 7

Additional information:

a) On 1 January 2025, the company's inventory was valued at €45,000.

b) All sales during the year were on credit, except for 25% which were cash sales.

c) On 31 December 2025, the following balances were estimated:

	€
Share capital	600,000
Retained earnings (which includes the profit for the year 2025 already)	120,000
6% bank loan repayable in 2029	200,000
Bank and cash	18,000

d) Current assets consist of inventory, trade receivables and bank and cash.

e) Current liabilities consist of trade payables and other payables. All purchases made during the year were on credit.

f) The company's interest expense for the year has been fully paid.

g) Nic Valley plc maintains stable inventory levels throughout the year.

Required:

A. Calculate for Nic Valley plc for the year ended 31 December 2025:
   i. Total sales revenue; (3)
   ii. Cost of sales; and (3)
   iii. Total purchases. (3)

B. Prepare in as much detail as possible:
   i. The statement of profit or loss for the year ended 31 December 2025. (8)
   ii. The statement of financial position as at 31 December 2025. (8)

(Total: 25 marks)

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MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 FIRST SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	II
DATE:	19th May 2026
TIME:	4:00 p.m. to 7:05 p.m.

This paper contains **THREE** 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 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. Provide **ONE** example of a factor that can limit production and explain how it would affect production decisions. (4)

2. a) What is the difference between marginal costing and absorption costing as methods of inventory valuation? (2)
   b) How would the **TWO** methods mentioned in 2(a) affect reported profits if the level of inventory increases? Explain your answer. (2)

3. Describe the characteristics of normal losses and abnormal losses in process costing and explain the accounting treatment of **each**. (4)

4. a) How is an overhead recovery rate calculated? (1)
   b) What is a blanket overhead recovery rate? Mention **TWO** reasons why a departmental overhead recovery rate may be more equitable than a blanket overhead recovery rate. (3)

5. a) Explain the rate of labour turnover and describe how it is calculated. (2)
   b) Describe **TWO** reasons why a high rate of labour turnover should be avoided. (2)

(Total: 20 marks)

Please turn the page.

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

6. Wax Ltd has been operating in the market for the last three years, producing a popular type of scented candle. The directors of Wax Ltd are concerned about the ever-increasing prices of direct labour. They approached the financial controller of Wax Ltd and requested a detailed report on the cash position of the company. As the cost accountant of the company, you have been requested by the financial controller to provide your feedback at the upcoming directors' board meeting on the projected cash position of the company for the third quarter of 2026, that is, for the period July to September 2026.

The forecasted Statement of Financial Position of Wax Ltd as at 30 June 2026 is as follows:

	€	€	€
Non-Current Assets:	**Cost**	**Dep.**	**NBV**
Property, plant and equipment	40,000	12,000	28,000
Current Assets:			
Inventories - Raw materials		5,000	
Inventories - Finished goods		15,200	
Trade receivables		22,500	
Other receivables		80	
			42,780
Total Assets			**70,780**
Equity:			
Ordinary share capital			30,000
Retained earnings			31,980
			61,980
Current Liabilities:			
Trade payables		8,200	
Bank overdraft		600	
			8,800
Total Equity and Liabilities			**70,780**

The directors made available the following additional information:

a) The proposed selling price for the last six months of 2026 is €30 per scented candle.

b) The following are the projected volumes to be produced and sold during the third quarter of 2026:

	July	**August**	**September**
Production – units	2,600	3,900	3,500
Sales – units	2,850	3,800	3,450

c) Half of the sales are to retailers, on the same credit terms applied during the first half of 2026, that is: 20% of the sales revenue to retailers are to be received during the month the scented candles are sold, whilst the remaining balance (80%) is to be received during the month following the sale.

d) The other 50% of the total sales are to individual customers, who are expected to pay in cash and will hence be entitled to a discount of 10%.

e) The company does not hold work-in-progress. The first-in first-out method of valuation is applied to value inventory of finished goods at variable production costs.

f) The variable production costs per unit for the second half of 2026 are estimated as follows:

	€
Material	8
Direct labour	10
Production overhead	2
Total	20

These estimated variable costs are, in total, €1 per unit more than in the first half of 2026.

g) The production department estimates that purchases of raw materials for the second half of 2026 will be €30,000 monthly.

h) The credit terms applied in the first half of 2026 shall remain in force during the second half of the year, that is: Wax Ltd will settle 70% of the purchases' value in the month in which they are made while the remaining 30% shall be settled in the month following the purchase. The amounts due to suppliers of raw materials as at 30 June 2026 amount to €8,200, as shown in the projected statement of financial position above.

i) Other than the cost of material, all other variable production costs are settled during the month in which they are incurred.

j) Rent is payable quarterly in advance at the beginning of January, April, July and October. The rental cost per annum amounts to €6,000.

k) The directors of Wax Ltd are currently exploring the idea of introducing new scented candles and wax products. This would require an investment in a different type of equipment. A second-hand machine suited for this purpose will be available in July 2026 for a cost of €2,000. 40% of the cost will be settled on delivery whilst the remaining balance is settled in three equal installments in August, September and October 2026, respectively.

l) Depreciation of property, plant and equipment is usually calculated over a period of 10 years. However, the estimated remaining useful life of the second-hand machine acquired mid-year (see note k) is 5 years. All the assets shall be deemed to have no residual value.

m) The projected statement of financial position as at 30 June 2026 shows other receivables of €80 which relates to prepaid printed advertising for July 2026. Given that printed advertising is in decline, the marketing personnel of Wax Ltd decided to engage a local influencer to target a wider audience. The agreement with the local influencer covers the second half of 2026 for a total value of €2,100, payable monthly in advance.

Questions continue on the next page.

n) Wax Ltd expects to incur other administrative expenses (excluding rent, advertising expenses and depreciation) amounting to €600 per month. The said expenses shall be settled in the month in which they are incurred.

Required:

A. Prepare a monthly cash budget for the three months ending 30 September 2026. (14)

B. Prepare a budgeted Statement of Profit or Loss for the three months ending 30 September 2026 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.

7. Popeye Limited produces and sells the product "SHADE". The budgeted sales and production for the month of February 2026 were 320 units, at a budgeted profit margin of 20%.

The following standard cost figures for the month of February 2026 were provided:

Material Shy per unit	10 kg at a price of €1.20 per kg
Material Dry per unit	2.5 kg at a price of €2 per kg
Direct labour per unit	11 hours at €10 per hour
Fixed production overheads	70% of direct labour cost

Due to increased competition, the actual orders received for the month of February 2026 were only 300, even though the budgeted sales price was reduced by 5%.

The actual costs incurred during February 2026 were as follows:

Material Shy	3,900 kg at a price of €1.35 per kg
Material Dry	700 kg at a price of €1.90 per kg
Direct labour	3,800 hours at €10 per hour
Fixed production overheads	€20,000

Required:

A. Calculate the Budgeted Profit and the Actual Profit for the month of February 2026 (show your workings). (8)

B. Analyse the difference between the Budgeted Profit and Actual Profit by:
   i. Sales, analysed into sales price variance and sales volume profit variance. (2)
   ii. Total material costs, analysed into price variance and usage variance for **both** materials. (6)
   iii. Total labour costs, analysed into rate variance and efficiency variance. (3)
   iv. Total fixed overhead, analysed into expenditure variance and volume variance. (3)

C. Explain the primary goal of variance analysis. (3)

(Total: 25 marks)

8. Cleanfeel Ltd is a local manufacturer specialising in a comprehensive range of cleaning products, including soaps, detergents and disinfectants. The following information is available for one of its material, sodium sulphate, for the month of January 2026:

January 1	Opening balance	10,000 kg at €30 per 100 kg
January 3	Receipts	20,000 kg at €35 per 100 kg
January 6	Receipts	15,000 kg at €38 per 100 kg
January 15	Issues	25,000 kg
January 27	Receipts	35,000 kg at €40 per 100 kg
January 29	Issues	40,000 kg

All the above prices exclude VAT. The cost of freight is not included in the purchase prices of January 2026. The cost of freight to import this material is 10% on the purchase price excluding VAT.

The following information is also available for this material:

The cost of making one order	€850
The cost of holding one kilo for one year	€0.25
The annual demand for the material sodium sulphate	900,000 kg
Maximum consumption per day	3,000 kg
Minimum consumption per day	1,800 kg
Normal consumption per day	1,200 kg
Lead time	10 to 14 days

Required:

A. Calculate the inventory value of sodium sulphate as at 31 January 2026 using the following methods of valuation on a perpetual basis:
   i. First In First Out (FIFO); and (3)
   ii. Weighted Average Cost (AVCO). (3)

B. Calculate the inventory value of sodium sulphate as at 31 January 2026 using the following methods of valuation on a periodic (monthly) basis:
   i. First In First Out (FIFO); and (3)
   ii. Weighted Average Cost (AVCO). (3)

C. For the material, sodium sulphate, calculate:
   i. The economic order quantity; (2)
   ii. Re-order level; (2)
   iii. Maximum inventory level; and (2)
   iv. Minimum inventory level. (2)

D. Using your answers to (A) and (B) above, briefly discuss the effects FIFO and AVCO methods of inventory valuation will have on the reported profit of Cleenfeel Ltd.

No further calculations are required. (5)

(Total: 25 marks)

Please turn the page.

9. John Abela opened his first retail outlet in Malta ten years ago, selling men's tailored suits. The business has experienced consistent growth and success, and it now operates four outlets across the country. Recently, Mr Abela has expressed an interest in further expanding his business by opening an additional shop. This new outlet would sell made-to-measure women's suits, incorporating modern tailoring techniques, versatile designs and comfortable fabrics.

The following information is available for this new outlet:

	€
Material cost per suit	105
Direct labour cost per suit	81
Rent of shop per quarter	3,500
Shop attendant's monthly salary	2,000
Sales commission on every suit sold, payable to the shop attendant	14
Annual shop insurance cost	6,300
Other annual fixed costs	8,500

Each suit will sell for €360. Suits are made to order, and no inventories of suits will be held. The total number of women's suits expected to be sold annually is 500.

Required:

A. Calculate:
   i. The contribution per suit; (3)
   ii. The annual break-even point expressed in number of suits and in sales value; (5)
   iii. The margin of safety in number of suits and as a percentage; and (2)
   iv. The total annual expected profit. (2)

B. Draw a break-even chart for a 12-month period and mark the break-even point, the margin of safety and the expected profit on the chart. Use the graph paper provided. (8)

C. Briefly describe the term "margin of safety". Explain how a narrow margin of safety may affect profitability and mention **TWO** ways how Mr Abela can increase the margin of safety for this new business. (5)

(Total: 25 marks)