L-Università ta' Malta

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	I
DATE:	31st August 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 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) Identify and describe the **THREE** sections of a Statement of Cash Flows. (3)
   b) Explain the purpose of the final reconciliation in the Statement of Cash Flows. (1)

2. A company can increase its share capital through a public issue; a rights issue; and a bonus issue.
   Distinguish between these **THREE** methods of increasing capital, specifying the accounting treatment of **each**. (4)

3. Retained earnings and share premium are **TWO** different types of company reserves.
   Explain how **each** reserve is created and how it can be utilised. (4)

4. A business that is registered for value added tax (VAT) because it carries out vatable transactions is described as a VAT collector.
   Explain this term and provide an example of the accounting treatment of a vatable sale and a vatable purchase. (4)

5. According to the IASB Conceptual Framework, the data included in financial statements should have certain qualitative characteristics for the financial statements to achieve their objective of being useful for decision-making.
   Briefly describe **FOUR** of these qualitative characteristics. (4)

(Total: 20 marks)

Please turn the page.

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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 Alexis, a sole trader operating in retail, on 31 December 2025:

	€	€
Capital		238,000
8% long-term loan		40,000
Drawings	8,000	
Insurance	1,200	
Sales		285,000
Purchases	160,000	
Salaries to shop assistants	50,000	
Rent	12,600	
Sundry expenses paid	900	
Accrued sundry expenses at 1 January 2025		100
Trade receivables	23,000	
Trade payables		25,800
Allowance for expected credit losses at 1 January 2025		2,000
Discounts allowed	18,000	
Discounts received		5,000
Water and electricity	3,000	
Premises, at cost	250,000	
Equipment, at cost	60,000	
Accumulated depreciation at 1 January 2025:		
Buildings		20,000
Equipment		28,000
Inventory at 1 January 2025	49,000	
Bad debts recovered		800
Carriage inwards	5,000	
Carriage outwards	2,500	
Returns inwards	1,200	
Returns outwards		1,200
Bank	1,500	
	645,900	**645,900**

The following additional information as at 31 December 2025 is available:

a) The annual stock take carried out at the end of the year valued inventory at a cost of €60,000. A second inspection revealed that this includes items that were damaged. These goods had been bought for €14,500 and can be sold as shop soiled goods at half price.

b) Shelving equipment bought on 1 July 2023 for €1,500 was no longer adequate and was sold in December 2025 for €1,100. However, the proceeds have not yet been received and the transaction was not recorded in the books. The accounting policy is to provide a full year depreciation in the year of acquisition and none in the year of disposal.

c) Land forming part of premises is valued at €50,000. Buildings are depreciated at 2% using the straight line method, while equipment is depreciated at 20% using the reducing balance method.

d) One employee is entitled to a performance bonus which amounted to €1,000 for the year 2025. The bonus was paid with the February 2026 salary.

e) The loan was issued on 1 October 2025 and interest on it is payable annually on 30 June of each year.

f) During the year, Alexis withdrew goods costing €2,000 for his personal use. These were not recorded in the books.

g) As at 31 December 2025, sundry expenses owing amounted to €300, while rent and insurance prepaid amounted to €550 and €250, respectively.

h) Alexis wants to make a specific allowance of €1,150 for a trade receivable balance which is unlikely to be paid. Another trade receivable balance of €1,000 will definitely not be collected and needs to be written off.

Required:

A. Prepare a Statement of Profit or Loss for the year ended 31 December 2025. (18)
B. Prepare a 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. Belli plc operates a restaurant in the vicinity of several business companies. On 1 January 2025, the balances appearing in the books of the company included:

	Cost/Revaluation	Accumulated Depreciation	Depreciation Policy
	€	€	
Land	50,000	-	Not depreciated
Buildings	150,000	19,000	2% straight line basis
Cooking equipment	65,000	23,500	40% reducing balance basis
Storage equipment	23,000	7,000	20% reducing balance basis
IT equipment	10,000	3,000	25% reducing balance basis

During the year ended 31 December 2025 the following transactions took place:

a) Belli plc extended its restaurant building, costing the company €10,000 material and €10,000 labour.
b) The opening of a new business center nearby has led several business companies to relocate. This has directly impacted the restaurant's customer base. As a result, an independent surveyor estimated that the value of the land has increased by 10% of the original cost.
c) Storage equipment bought in June 2022 for €5,000 was now considered inadequate and sold for €1,000. Instead, new storage equipment was acquired for €7,000 with a deposit of €1,000 made on delivery and the balance due within 12 months.
d) New cooking equipment featuring the latest technology costing €15,000 was purchased in February 2025. The installation costs amounted to €2,000.
e) IT equipment bought in September 2023 for €3,200 was badly damaged due to a surge in the power supply and had to be written-off. The insurance company agreed to pay Belli plc €1,500 in full and final settlement.

Belli plc's policy is to provide a full year’s depreciation in the year of acquisition and none in the year of disposal. The methods of depreciation have remained unchanged.

Required:

A. Prepare the land and buildings, cooking equipment, storage equipment and IT equipment accounts and their corresponding allowance for depreciation accounts as at 31 December 2025. (17)
B. Prepare the storage and IT equipment disposal accounts showing the profit or loss on disposals for the year. (4)
C. Explain why the accumulated allowance for depreciation has a credit balance when the annual depreciation is considered as an expense and charged to the statement of profit or loss. (4)

(Total: 25 marks)

8. Formica plc is a company manufacturing construction bricks. The following trial balance was extracted from the company's books on 31 December 2025:

	€	€
Land	500,000	
Plant and machinery	250,000	
Motor vehicles	80,000	
Office equipment	40,000	
Accumulated depreciation at 1 January 2025:		
Plant and machinery		44,000
Motor vehicles		23,000
Office equipment		12,000
Opening inventories:		
Raw materials	35,000	
Work in progress	19,000	
Finished goods	52,800	
Provision for unrealised profits at 1 January 2025		4,800
Carriage in	6,500	
Carriage out	9,500	
Returns out		3,000
Purchases of raw materials	225,000	
Direct wages	123,000	
Other factory wages	55,000	
Factory overheads	46,000	
Indirect factory material	30,000	
Water and electricity	24,000	
Rent payable	70,000	
Rent receivable		5,000
Machinery repairs	21,000	
Administration expenses	30,000	
Sales		850,000
Cash at bank	36,000	
Retained earnings		350,000
Ordinary share capital (nominal value €1 per share)		300,000
General reserve		62,000
Trade receivables	22,700	
Trade payables		21,700
	1,675,500	**1,675,500**

Other relevant information to be considered:

a) Manufactured goods are transferred to trading at cost plus 10% manufacturing profit.

b) The following inventories were held at the end of the year:

Raw materials	€45,000
Work in progress	€35,000
Finished goods	€66,000

c) It is company policy to provide for depreciation as follows:

Plant and machinery	10% on cost
Motor vehicles	25% on net book value
Office equipment	25% on net book value

Question continues on the next page.

d) The motor vehicle is used to distribute goods to customers.
e) On 31 December 2025, rent paid in advance amounted to €2,600 and water and electricity expenses due and not yet paid amounted to €3,000.
f) The rent payable and water and electricity expenses should be both apportioned 75% to factory and 25% to administration.
g) Rent receivable of €1,000 has not yet been received.
h) The directors recommend transferring €15,000 to the General Reserve.

Required:

A. For the year ended 31 December 2025 prepare:
   i. The provision for unrealised profit account. (3)
   ii. The manufacturing account. (8)
   iii. The statement of profit or loss. (5)
   iv. The statement of financial position as at 31 December 2025. (5)
B. Briefly explain **TWO** concepts involved in the need for the allowance for unrealised profit. (4)

(Total: 25 marks)

9. You are an investment analyst and one of your clients has approached you asking for investment advice. Konkos, Planki and Gebel are three public limited companies operating in the construction industry. The following is the latest financial data of these companies.

Statement of Financial Position as at 31 December 2025:

	Konkos	**Planki**	**Gebel**
	€'000	**€'000**	**€'000**
Non-current assets			
Property, plant and equipment (at cost)	298	220	189
Accumulated depreciation	-44	-60	-34
Total non-current assets	254	160	155
Current assets			
Inventory	92	150	99
Trade receivables	110	133	75
Bank	45	6	78
Total current assets	247	289	252
Total Assets	**501**	**449**	**407**
Equity			
Ordinary share capital (€1 ordinary shares)	174	240	196
Revaluation reserve	76	15	54
Retained earnings	98	80	110
Total equity	348	335	360
Non-current liabilities			
6% Debentures (maturing in 2030)	80	-	-
Current liabilities			
Trade payables	65	65	42
Other payables	8	19	5
Bank overdraft	--	30	--
Total current liabilities	73	114	47
Total equity and liabilities	**501**	**449**	**407**

Extracts from the Statement of Profit or Loss Account for the year ended 31 December 2025:

	Konkos	Planki	Gebel
	€'000	€'000	€'000
Sales	654	965	755
Average inventory	125	105	86
Gross profit	112	154	130
Net profit for the year	51	51	51

Extracts from the Statement of Changes in Equity for the year ended 31 December 2025:

	Konkos	Planki	Gebel
	€'000	€'000	€'000
Dividend paid	20	8	14

Required:

A. Prepare a report analysing and comparing the performance and financial position of the three companies. (20)
   Your answer should include the following accounting ratios:
   i. **THREE** profitability ratios;
   ii. **THREE** efficiency ratios;
   iii. **TWO** liquidity ratios; and
   iv. **TWO** capital structure ratios.

B. Your client has €10,000 to invest. Advise him which of the three companies to choose, providing a rationale for your advice. (5)

(Total: 25 marks)

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MATRICULATION AND SECONDARY EDUCATION CERTIFICATE
EXAMINATIONS BOARD

ADVANCED MATRICULATION LEVEL
2026 SECOND SESSION

SUBJECT:	**Accounting**
PAPER NUMBER:	II
DATE:	1st September 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 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.

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SECTION A

Answer all FIVE questions in this section. This section carries a total of 20 marks.

1. a) What is a flexible budget? (1)
   b) Describe **TWO** uses of a flexible budget. (3)

2. a) Show how the total material cost variance is calculated and analysed into usage and price variances. (2)
   b) Identify **TWO** reasons why a material usage variance can be 'adverse'. (1)
   c) Identify **TWO** reasons why a material price variance can be 'favourable'. (1)

3. Musik Ltd produces a wind instrument that is in high demand in the Maltese market. The company's current capacity is limiting its ability to satisfy this demand. It has identified an Italian company that produces and exports this same instrument. Musik Ltd is considering the option of buying the wind instrument rather than producing it. This would meet the local demand and release capacity which can then be used to produce other musical instruments.
   a) Explain the financial considerations of this decision. (2)
   b) Identify **TWO** non-financial factors that Musik Ltd should include in its decision. (2)

4. The Hi-low method is a way of analysing a semi-variable cost into its variable and fixed elements.
   a) Distinguish between a variable cost and a fixed cost. (2)
   b) What information is required about the behaviour of a semi-variable cost in order to be able to analyse it into its variable and fixed parts? (2)

5. a) Describe the characteristics of process costing. (2)
   b) Identify **TWO** types of industries that would use process costing. (2)

(Total: 20 marks)

Please turn the page.

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

6. Laring Health (LH) Ltd is a successful wholesale company that sells premium health and lifestyle products to retailers and specialist shops. Established ten years ago, the business has achieved consistent growth in revenue and profitability, supported by strong margins, effective cost control and healthy cash flows. As demand for its products continues to increase, the directors are now considering further expansion. Plans include opening two additional stores and potentially launching the company's first overseas stores in Italy. Careful financial planning and budgeting is required to support these growth opportunities.

   The following forecast information has been provided by the finance director of LH Ltd:

   a) Projected statement of financial position as at 30 September 2026:

	€	€
Non-current Assets		
Property, plant and equipment		925,000
Current Assets		
Inventory	434,000	
Net trade receivables (note c)	991,600	
Bank and cash	947,000	
		2,372,600
		3,297,600
Equity and Liabilities		
Share capital		500,000
Retained earnings		2,275,225
		2,775,225
Current Liabilities		
Trade payables (note e)		328,000
Income tax due (note k)		102,500
Accrued expenses (notes f and g)		91,875
		3,297,600

   b) Budgeted information for the months August to December 2026 includes:

	Sales (Note c)	**Purchases** (Note e)	**Administration costs** (Note f)	**Gross Wages and salaries** (Note g)	**Selling and distribution costs** (Note h)
	€	**€**	**€**	**€**	**€**
August	960,000	380,000	80,000	140,000	45,000
September	850,000	410,000	95,000	170,000	58,000
October	1,040,000	640,000	105,000	145,000	48,000
November	1,230,000	790,000	134,000	180,000	63,000
December	930,000	505,000	145,000	200,000	68,000

c) To encourage prompt payments from customers, the company gives a discount for cash payment. LH Ltd expects that 20% of all customers will avail of this offer and will receive a discount of 5%. Of the remaining amounts receivable, the company expects to receive 50% one month after the month of sale, 45% two months after the month of sale and the remainder are expected to remain irrecoverable.

d) Selling prices are set at a uniform gross profit mark-up of 60%.

e) Suppliers are paid as follows: 20% of purchases are settled in the month in which they are made, the remainder are settled in the month following the purchase. The company receives a 3% cash discount on all payments made in the month of purchase.

f) Administration costs include depreciation of €2,500 per month. 65% of the other administration costs are paid in the month in which the cost is incurred. The remaining are paid one month later.

g) 25% of gross wages represent tax deductions and the employees' share of national insurance contribution. The employer's share of national insurance contribution amounts to 10% of gross wages. Net wages are paid on the last day of each month, whereas tax and national insurance contributions (including the company's share) are paid in the following month.

h) Selling and distribution costs are payable in the month they are incurred.

i) The company is planning to upgrade some of its machinery. The upgrade is planned to take place in March 2027 for the cost of €800,000. A deposit of 25% is required to be paid in October 2026. The company shall pay the remainder in ten equal monthly instalments, commencing from the month the new machinery is installed.

j) The company has entered into an agreement to rent one of its stores to Lemon T Ltd. The store will be made available from 1 December 2026 and it was agreed that, on this date, Lemon T Ltd will pay €6,000 for the six months December 2026 to May 2027.

k) The income tax due of €102,500 is expected to be paid in the month of November 2026.

Required:

A. Prepare a detailed monthly cash budget for the three months ending 31 December 2026 for LH Ltd. (12)

B. Draft a budgeted Statement of Profit or Loss for the three months ending 31 December 2026 and a Statement of Financial Position as at that date. (18)

(Total: 30 marks)

Please turn the page.

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

7. Relax Limited, a company involved in the production of sofas and armchairs, was approached by a boutique hotel for a quote for two jobs: a five-seater sofa and a three-seater sofa. Management has been informed that the sofas need to be delivered within two weeks from the date on which the order is placed.

   The management of Relax Limited has approached you as the company's accountant, to determine the cost of these two jobs and the selling prices to be quoted. The following information has been made available:

   a) Three types of material will be required as follows:

	Five-seater sofa	**Three-seater sofa**
Material A – €6 per metre	22 m	18 m
Material B – €4 per unit	420 units	300 units
Material C – €12 per kg	10 kg	8 kg

   Due to the nature of the production process, management expects scrap to arise from the use of Material A and Material B. Scrap of Material A is expected to amount to 20% of material used and will be sold at €1.50 per metre whilst scrap of Material B is expected to amount to 10% of material used which will be sold at €1 per unit.

   b) Skilled and unskilled labour hours required for these jobs are estimated to be as follows:

	Five-seater sofa	**Three-seater sofa**
Skilled labour hours	130	100
Unskilled labour hours	190	120

   The company's workforce is made up of 2 skilled workers and 3 unskilled workers. Skilled workers are remunerated at the rate of €12.00 per hour whilst unskilled workers are remunerated at the rate of €6.00 per hour. Workers are employed on a forty-hour week. Each job shall be allocated with the following percentage of total number of hours available:

	Five-seater sofa	**Three-seater sofa**
Skilled labour hours	50%	50%
Unskilled labour hours	60%	40%

   All employees work overtime and are remunerated at one and a half times the normal rate. Each employee works a total of 5 hours of overtime per week. Should the total available labour hours fall short of the required total labour hours to complete a job, the company resorts to the recruitment of part-time employees. Part-time skilled employees will cost the company €20.00 per hour whilst part-time unskilled employees will cost €15.00 per hour.

   c) Production overheads are absorbed into production on the basis of labour hours worked. The absorption rate to be charged is of €0.80 per labour hour.

d) The company will incur other fixed overheads amounting to €1,500. These are to be shared as follows: 60% on the five-seater sofa and 40% on the three-seater sofa.

e) The mechanical parts of the sofas will be subcontracted at the rate of €15 per sofa-seating.

f) Each sofa needs to be certified before delivery. This certification costs €200 for the five-seater sofa and €120 for the three-seater sofa.

g) Selling prices are established by providing for a mark-up of 15%.

Required:

A. Calculate the cost of **each** job. (18)
B. Calculate the mark-up and selling price to be quoted for **each** job. (3)
C. Briefly explain what is job costing and identify **ONE** benefit to businesses. Also, identify **TWO** scenarios when a company should opt for job costing. (4)

(Total: 25 marks)

8. Star Cycle Ltd manufactures mountain bikes. Its primary market is the Netherlands, where the company distributes its products through various bicycle retailers.

Star Cycle Ltd has two production departments, Machining and Assembly, and two service departments, Stores and Maintenance.

The following information is available for one mountain bike:

Direct material	€125.50
Direct labour:	
Machining (€40 per hour)	45 mins
Assembly (€15 per hour)	90 mins
Direct expenses	€65.00
Machine hours:	
Machining	150 mins
Assembly	40 mins

Total budgeted production overheads for the year ended 31 December 2025 were as follows:

	€
Indirect wages	350,000
Factory rent	100,000
Insurance of machinery	22,000
Water and electricity costs	75,000
Indirect labour:	
Machining	105,600
Assembly	125,420
Stores	23,000
Maintenance	45,000
Machine overheads	48,000

Question continues on the next page.

The following information was also available:

	Machining	Assembly	Stores	Maintenance
Floor area (square metres)	2,000	5,600	1,800	600
Cost of machinery	140,000	60,000		
Number of indirect employees	3	4	1	2
Maintenance call outs	200	51		
Number of orders from stores	1,000	790		
Budgeted direct labour hours	8,000	34,340		
Budgeted machine hours	15,000	9,000		

Machine overheads are apportioned on the basis of machine hours.

Actual results for the year 2025 were:

	Machining	Assembly
Machine hours	12,500	7,500
Direct labour hours	9,000	35,000
Actual overheads (€)	380,000	450,000

Required:

A. Allocate and apportion the production overheads to the production departments and determine the budgeted overhead recovery rates for the **TWO** production departments on the following basis:
   Machining department – Machine hours
   Assembly department – Direct labour hours (11)

B. For the year 2025, calculate the under/over absorption of overheads for **each** production department. (4)

C. Calculate the selling price per mountain bike, applying a mark-up of 30%. (6)

D. Briefly explain **FOUR** reasons why budgeted overhead recovery rates should be used rather than actual overhead rates. (4)

(Total: 25 marks)

9. Kettle Ltd was incorporated in Malta last year. It is involved in the production of kettles - electric and stovetop. Due to the increase in demand, management is currently discussing new incentive schemes with the aim of encouraging higher production levels.

   The directors have provided you, the cost accountant, with the following information about five of the company's employees, for a particular week:

	Ethan	**Andrei**	**Eliza**	**Leon**	**Mia**
Units produced					
- Electric kettles (units)	95	80	65	82	75
- Stovetop kettles (units)	78	92	50	59	65
Actual hours of work	46	41	36	40	44
Rate of pay per hour (€)	14.50	12.75	10.50	11.25	13.25

   Hours worked over and above 40 hours per week are remunerated at 1.5 times the normal rate.

   The rate per minute to be used for piecework calculations is €0.25 for electric kettles and €0.15 for stovetop kettles.

   The standard time allowed per unit of product is as follows:
   - 20 minutes for electric kettles; and
   - 14 minutes for stovetop kettles.

Required:

A. Calculate the remuneration for **each** employee using the following methods of labour remuneration (2 decimal places):
   i. Hourly rate (basic salary); (5)
   ii. Piecework (flat piece rate system); (5)
   iii. Piecework with the remuneration guaranteed at 90% of the basic salary (as calculated in part A.i.); and (5)
   iv. Individual bonus, whereby the employee is paid 65% of the hourly rate for **each** hour saved, in addition to the basic salary (as calculated in part A.i.). (5)

B. Briefly comment on the power of effective employee incentive schemes, identifying **TWO** advantages and **TWO** disadvantages of bonus schemes such as that calculated in part A.iv. (5)

(Total: 25 marks)