Coimisiún na Scrúduithe Stáit
State Examinations Commission

Scéimeanna Marcála	*Scrúduithe Ardteistiméireachta, 2004*
Cuntasaíocht	*Ardleibhéal & Gnáthleibheal*
Marking Scheme	*Leaving Certificate Examination, 2004*
Accounting	*Higher level & Ordinary Level*

LEAVING CERTIFICATE ACCOUNTING

MARKING SCHEME FOR THE 2004 EXAMINATION

INTRODUCTION

The solutions and marking schemes for Accounting, Higher and Ordinary levels, are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in a circle like this ❻ alongside. These marks are then totalled for each section/page and shown in a square like this $\boxed{40}$.

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (eg A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where their calculation in Section (a) is incorrect, but this inaccurate information is used in the answer to Section (b), examiners give credit for analysis/decisions correctly made by the candidate on the basis of the incorrect data in this section. In this way, candidates are not penalised twice for the same error.

Accounting – Higher Level 2004

QUESTION 1 – *solution* 75

(a) **Trading, Profit and Loss Account for the year ended 31/12/2003**

		€	€	€
Sales				990,000 ⊄
Less Cost of sales				
Stock 1/1/2003			76,600 ⊄	
Add Purchases	**W 1**		558,000 ∈	
			634,600	
Less Stock 31/12/2003	**W 2**		(81,800) ∈	(552,800)
Gross profit				437,200
Less Expenses				
Administration				
Directors fees		80,000 ⊄		
Salaries & general expenses		176,000 ⊄		
Patents written off	**W 3**	12,000 ∉		
Depreciation - buildings	**W 4**	13,000 ⊆	281,000	
Selling and Distribution				
Bad debts written off		1,750 ⊆		
Depreciation- delivery vans	**W 5**	35,600 ∉		
Loss on sale of van	**W 7**	10,000 ∈	47,350	328,350
Operating profit				108,850
Decrease in provision for bad debts	**W 6**		744 ∈	
Investment income	**W 8**		7,200 ⊆	7,944
				116,794
Debenture interest				(18,900) ∈
Net profit for year before taxation				97,894
Less Appropriation				
Preference dividend paid			7,000 ⊄	
Ordinary dividend paid			33,000 ⊂	
Preference dividend proposed			7,000 ⊄	
Ordinary dividend proposed			16,500 ⊂	(63,500)
Retained profit				34,394
Profit and loss balance 1/1/2003				67,600 ⊄
Profit and loss balance 31/12/2003				101,994 ∉

QUESTION 1 – *solution (continued))*

(b) 45

Balance Sheet at 31 December 2003

		Cost	Accumulated Depreciation	Net	Total
Intangible Fixed Assets		€	€	€	€
Patents (60,000 - 12,000)					48,000 ⊂
Tangible Fixed Assets					
Land and buildings	**W 9**	880,000 ⊇		880,000	
Delivery vans	**W 10**	196,000 ⊄	85,600 ⊂	110,400	
		1,076,000	85,600	990,400	990,400
Financial Assets					
8% Investments					180,000 ⊄
					1,218,400
Current assets					
Stock				81,800 ⊄	
Investment income due				2,700 ⊂	
Debtors	**W 11**		71,400 ⊂		
Less provision			2,856 ⊇	68,544	
				153,044	
Creditors: amounts falling due within one year					
Creditors	**W 12**		81,090 ⊂		
Preference dividend due			7,000 ⊄		
Ordinary dividend due			16,500 ⊂		
Debenture interest due			14,400 ⊂		
VAT			16,500 ⊄		
Bank	**W 13**		1,960 ∈	(137,450)	
					15,594
					1,233,994

Financed by

Creditors: amounts falling due after more than one year				
8% Debentures				230,000 ⊄
Capital and reserves		**Authorised**	**Issued**	
Ordinary shares at €1 each		690,000	550,000 ⊇	
6% Preference shares at €1 each		300,000	200,000 ⊇	
		990,000	750,000	
Revaluation reserve	**W 14**		152,000 ⊂	
Profit and loss Balance			101,994	
Shareholders' funds				1,003,994
Capital employed				1,233,994

QUESTION 2 – *solution*

60

	1/1/2003 €	January €	February €	March €	April €	May €	July €	Dec €	Total €
Assets									
Land and Buildings	460,000	120,000 ❷	360,000 ❷						940,000
Accumulated Depreciation	(13,800)	13,800 ❷						(16,200) ❷	(16,200)
Delivery Vans	76,000		58,000 ❷		16,000 ❷				150,000
Accumulated Depreciation	(33,000)				6,600 ❷			(22,000) ❶	(48,400)
Stock	59,800		25,000 ❷	1,500 ❸					86,300
Debtors	61,700			(1,620)❷			480 ❸		60,560
Insurance A/c (Prepaid)	1,500					4,800 ❸		(4,300) ❶	2,000 ❶
Goodwill			70,000 ❸						70,000
TOTAL	**612,200**	**133,800**	**513,000**	**(120)**	**22,600**	**4,800**	**480**	**(42,500)**	**1,244,260** ❶
Liabilities									
Share Capital	430,000		400,000 ❷						830,000
Share Premium	40,000		80,000 ❷						120,000
Revaluation Reserve		133,800 ❸							133,800
Profit and Loss	67,200			(120) ❶	(900) ❸		1,200 ❷	(42,500) ❸	24,880 ❷
Creditors	62,500		33,000 ❷						95,500
Wages due	2,400								2,400
Bank	10,100				23,500 ❶	4,800 ❷	(720) ❶		37,680 ❶
TOTAL	**612,200**	**133,800**	**513,000**	**(120)**	**22,600**	**4,800**	**480**	**(42,500)**	**1,244,260** ❶

QUESTION 3 - Solution

(a)

20

Land and Buildings Account

		€			€
1/1/99	Balance b/d	740,000 ❷			
1/1/99	Revaluation Res.	130,000 ❷	31/12/99	Balance c/d	870,000
		870,000			870,000
1/1/00	Balance b/d	870,000	01/02/00	Disposal	300,000 ❶
			31/12/00	Balance c/d	570,000
		870,000			870,000
1/1/01	Balance b/d	570,000 ❶	31/12/01	Balance c/d	1,200,000
	Bank	450,000 ❷			
	Bank	120,000 ❷			
	Wages	60,000 ❷			
		1,200,000			1,200,000
1/1/02	Balance b/d	1,200,000	31/12/02	Balance c/d	1,320,000
1/1/02	Revaluation Res	120,000 ❷			
		1,320,000			1,320,000
1/1/03	Balance b/d	1,320,000	01/02/03	Disposal	627,000 ❸
1/1/03	Revaluation Res	107,000 ❸	31/12/03	Balance c/d	800,000
		1,427,000			1,427,000

23

Provision for Depreciation on Buildings Account

		€			€
1/1/99	Revaluation Res.	98,000 ❷	1/1/99	Balance b/d	98,000 ❹
31/12/99	Balance c/d	11,400	31/12/99	Profit and Loss	11,400 ❷
		109,400			109,400
31/12/00	Balance c/d	22,800	1/1/00	Balance b/d	11,400
			31/12/00	Profit and Loss	11,400 ❷
		22,800			22,800
31/12/01	Balance c/d	46,800	1/1/01	Balance b/d	22,800
			31/12/01	Profit and Loss	24,000 ❷
		46,800			46,800
1/1/02	Revaluation Res.	46,800 ❷	1/1/02	Balance c/d	46,800
31/12/02	Balance c/d	26,400	31/12/02	Profit and Loss	26,400 ❷
		73,200			73,200
1/1/03	Disposal	12,540 ❷	1/1/03	Balance b/d	26,400
1/1/03	Revaluation Res.	13,860 ❸	31/12/03	Profit and Loss	16,000 ❷
31/12/03	Balance c/d	16,000			
		42,400			42,400
			1/1/03	Balance b/d	16,000

3

Disposal of Land Account

		€			€
1/1/00	Buildings	300,000 ❶	1/1/00	Bank	330,000 ❶
31/12/00	P & L (Profit)	30,000 ❶			
		330,000			330,000

4

Disposal of Buildings Account

		€			€
1/1/03	Buildings	627,000 ❶	1/1/03	Depreciation	12,540 ❶
31/12/03	P & L (Profit)	85,540 ❶	1/1/03	Bank	700,000 ❶
		712,540			712,540

8

Revaluation Reserve Account

		€			€
1/1/99	Revenue reserve	50,000 ❶	1/1/99	Land and Buildings	130,000 ❶
1/1/03	Revenue reserve	269,200 ❶		Provision for Dep	98,000 ❶
	Balance	196,460	1/1/02	Land and Buildings	120,000 ❶
				Provision for Dep	46,800 ❶
			1/1/03	Land and Buildings	107,000 ❶
				Provision for Dep	13,860 ❶
		515,660			515,660

2

Revenue Reserve Account

		€
1/1/99	Revenue reserve	50,000 ❶
1/1/03	Revenue reserve	269,200 ❶

QUESTION 4 - *solution*

(a) Reconciliation of operating profit to net cash flow from operating activities: 20

		€	
Operating profit		150,600	❷
Depreciation charges for year	**W 1**	70,000	❹
Loss on sale of machinery	**W 2**	11,000	❻
Increase in stocks		(17,000)	❷
Increase in debtors		(28,000)	❷
Increase in creditors		23,000	❷
Net cash inflow from operating activities		209,600	❷

(b)

Cash Flow Statement of Creation Plc for the year ended 31/12/2003 30

				€	
Operating Activities					
Net cash inflow from operating activities				209,600	❶
Returns on investments and servicing of finance ❶					
Interest paid				(9,200)	❸
Taxation ❶					
Corporation tax paid				(40,000)	❸
Capital expenditure and financial investment ❶					
Investments		(30,000)	❷		
Payments to acquire tangible fixed assets		(75,000)	❷		
Receipts from sale of fixed assets		24,000	❷	(81,000)	
Equity dividends paid ❶					
Dividends paid during year	**W 3**			(60,000)	❹
Net cash **inflow** before liquid resources and financing				19,400	
Financing					
Repayment of debentures		(110,000)	❷		
Receipts from issue of shares		60,000	❶		
Receipts from share premium		12,000	❶	(38,000)	
Decrease in cash	❷			(18,600)	

<u>Reconciliation of net cash flow to movement in net debt</u>

	€	
Decrease in cash during period	(18,600)	❶
Cash used to purchase debentures	110,000	❶
Change in net debt	91,400	
Net debt at 1/1/2003	(147,000)	
Net debt at 31/12/2003	(55,600)	❶

(c) 10

Credit sales/ purchases affect profit but do not affect cash
Non-cash losses and gains affect profit but not cash
Purchase and sale of fixed assets by cash affect cash but not profit
Introduction or withdrawal of capital in cash affect cash but not profit

Non-cash items – Depreciation, Provisions against losses, losses/ profits from sale of assets

N.B. ***The <u>three marks</u> applied to Reconciliation Statement above are applied to*** " Net **cash inflow** before financing €19,400" if old method was presented by candidates.

Headings 4 x 1 mark

QUESTION 5 - *solution*

(a) 50

Cash purchases

$\frac{\text{Creditors x 12}}{\text{Credit purchases}} = 1.5$ Credit purchases $= \frac{35{,}000 \times 12}{1.5}$

Credit purchases = 280,000

Cash purchases = 751,000 - 280,000 = €471,000 (12)

Earnings per share

$\frac{\text{Net profit after Pref Div x 100}}{\text{Number of ordinary shares}} = \frac{117{,}000 \times 100}{500{,}000} =$ 23.4c (10)

Period to recover price

$\frac{\text{Market Price}}{\text{Dividend per share}} = \frac{175}{9.2} =$ 19 years (12)

Dividend yield

$\frac{\text{Dividend per Ordinary Share x 100}}{\text{Market Price}} = \frac{2.9 \times 100}{1.75} =$ 1.66% (8)

Price earnings Ratio

$\frac{\text{Market price}}{\text{Earnings per share}} = 9 = \frac{\text{Market Price}}{23.4} = 9$ 210.6c (8)

QUESTION 5 - *solution (continued):*

(b) 50

Dividends ⑩

	2003	**2002**
Dividend per share	9.2c	2.9c
Dividend Yield	4.37%	1.66%
Dividend Cover in 2002 was	2.5 times	7.6 times
Real return– Div Yield x Div Cover	10.9%	12.6%

The dividend policy of company has eased over the two years as the percentage of profits paid out has increased from 13.15% to 40%

The real return of 10.9% and 12.6% are well above the return from risk free investments of less than 5%

Market Value of Share: ❽

The market value of each share increased from €1.75 in 2002 to €2.11 in 2003.
The shares are now being offered at €2.00. This is 11c above 2003 value
The price earnings ratio 2003 is 9 and 8 in 2002

Profitability ❽
The Return on Shareholders equity increased from 19% in 2002 to 19.2% in 2003.
The Return on Capital Employed increased from 14% in 2002 to 15.7% in 2003.
This indicates a healthy trend and the value of share would further increase if this trend continues.
The return is better than the return from risk free investments of less than 5%

Proportion of shares owned ❻
The remaining 150,000 shares would give the purchaser 23% ownership of the company. This amount added to shares already owned would bring the owner's shareholding close to the point of having to bid for the remainder of the shares.

Liquidity ❻
The Acid test ratio improved from 0.9 to 0.95. This is a satisfactory position as the company now has 95c available to pay each €1 owed in the short term.
The company does not have a liquidity problem

Gearing ❻
The firm is low geared. The gearing has improved from 40% in 2002 to 37% of total capital in 2003.
Interest Cover in 2002 was 9 times and this cover has increased to 10 times in 2003.
This indicates that there is little risk from creditors and a better prospect of higher dividends

Sector: ❻
The Leisure industry is a growth industry. People are prepared to spend more of their disposable income on leisure.

QUESTION 6 - *solution*

(a) 30

Accumulated Fund at 1 January 2003

	€	€
Assets		
Clubhouse and Course	740,000 ❶	
Bar stock	3,800 ❶	
Equipment	28,600 ❶	
Bar debtors	155 ❶	
6% Government Investments	40,000 ❷	
Interest on Investments	150 ❷	
Levy due	1,600 ❸	
Bank Current Account	4,440 ❸	818,745
Less Liabilities		
Life Membership	36,000 ❷	
Creditors	2,450 ❶	
Subscriptions prepaid	1,800 ❷	
Levy Reserve Fund	60,000 ❷	
Wages due	2,400 ❶	
Loan	30,000 ❷	
Loan interest due	900 ❸	133,550
Accumulated fund/ Capital at 1 January 2003 ❶		685,195 ❷

(b) 35

Income and Expenditure Account for the year ended 31 December 2003

		€	€
Income			
Bar profit	W 1	32,295 ❻	
Investment income	W 2	2,400 ❸	
Subscriptions	W 3	180,000 ❻	
Life membership	W 4	4,000 ❸	
Entrance fees		17,000 ❶	
Annual sponsorship		33,000 ❶	
Profit from catering		2,190 ❷	270,885
Less Expenditure			
Sundry expenses	(185,600 - 2,400)	183,200 ❸	
Loan interest		3,600 ❷	
Depreciation – Equipment		14,620 ❷	
Depreciation – Clubhouse & Courts		14,800 ❷	
Coaching Lessons		4,650 ❶	220,870
Surplus of income over expenditure for year			50,015 ❸

QUESTION 6 – *solution - continued*

(c) 20

Balance Sheet as at 31/12/2003

	Cost	Dep to date	NBV
Fixed Assets	€	€	€
Clubhouse & Courts	740,000 ❶	14,800 ❶	725,200
Equipment	73,100 ❷	14,620 ❶	58,480
	813,100	29,420	783,680
Investments			
6% Government investments		40,000 ❶	
Building Society		70,000 ❶	110,000
			893,680
Current Assets			
Bar stock		4,300 ❶	
Bar debtors		110 ❶	
Investment income due		1,100 ❸	
Bank		5,190 ❶	
		10,700	
Less Creditors: amounts falling due within 1 year			
Subscriptions prepaid	2,400 ❶		
Bar creditors	2,770 ❶	5,170	
Working Capital			5,530
Total Net Assets			899,210
Financed by			
Creditors: amounts falling due after more than 1 year			
Life membership			44,000 ❷
Levy reserve Fund			120,000 ❷
Accumulated fund			
Balance at 1 January 2003		685,195 ❶	
Add excess of income for year		50,015	735,210
Capital employed			899,210

(d) 15

A reduction in subscriptions of 20% for 2004 would involve a reduction in club income of €36,000. ❻

Although the club is financially sound as it has €5,190 in the bank, €70,000 in the building society, ❸ investments worth €40,000 and has paid off a loan of €30,000 these funds are set aside for future capital expenditure.

The club's surplus of income for the year 2003 of €50,015 would seem to indicate that the club is ❸ capable of bearing a reduction of 20%. However almost all of this surplus is provided by entrance fees of €17,000 and sponsorship of €33,000 and this income can not be guaranteed in future years.

It can be argued that a reduction in membership fees could attract more members and thus bring in ❸ entrance fees as well as increase bar profit. However it would not be prudent to reduce subscription fees at present and instead it would be advisable to retain the present level of fees and use these fees to provide improved facilities for the members and thus attract more members.

Workings

1 Bar Profit -Bar Trading Account for year ended 31/12/2003

		€	€
Sales	(112,660 - 155 + 110)		112,615
Less Cost of goods sold			
Stock at 1 January 2003		3,800	
Add purchases	(80,500 + 2,770 – 2,450)	80,820	
Less Stock 31 December 2003		(4,300)	80,320
Bar profit			32,295

2 Investment Income

	€	
Income Received	1,450	
Less Income due 1/1/2003	(150)	
Add Income due 31/12/2003	1,100	
Income and expenditure account		2,400

3 Subscriptions

	€	
Subscriptions received	254,200	
Add subscriptions prepaid at 1/1/2003	1,800	
Less subscriptions prepaid at 31/12/2003	(2,400)	
Less Levy for 2003	(60,000)	
Less Levy for 2002	(1,600)	
Less 2 life memberships	(12,000)	
Income and Expenditure Account		180,000

4

Life Membership 1/1/2003	36,000	
Add membership received	12,000	
Less amount transferred to I & E account	(4,000)	
Balance 31/12/2003		44,000

5

Profit on Catering - catering receipts	6,650	
Catering costs	4,460	
Income and expenditure account		2,190

QUESTION 7 – solution

(a) 55

Journal Entries

		Dr	Cr
		€	€
(i)	Fixtures & Fittings	1,650 ❸	
	Purchases	16,500 ❸	
	Creditors/Dolan		23,000 ❸
	Suspense	4,850 ❸	
	Being correction of incorrect recording of the purchase of furniture on credit		
(ii)	Debtor account	800 ❷	
	Bank account		750 ❷
	Discount Allowed disallowed		50 ❸
	Bad Debts account	800 ❸	
	Debtor		800 ❷
	Being recording of dishonouring a cheque and recording of a bad debt		
(iii)	Fixtures and Fittings	34 ❸	
	Purchases		40 ❸
	Suspense	6 ❸	
	Sales Returns	340 ❷	
	Debtors		340 ❷
	Being lockers returned by a customer entered incorrectly in the books		
(iv)	Drawings	1,600 ❸	
	Discount Allowed	100 ❸	
	Debtors		1,700 ❸
	Being recording of an offset of a private debt owed by Craddock against a debt owed by a customer to the firm		
(v)	Creditors	8,320 ❸	
	Suspense		8,600 ❸
	Purchases Returns	280 ❸	
	Being correction of incorrect recording of a credit note and recording of a charge for returns		

Penalty of 5 x 1 mark for each narrative omitted

(b) 10

Suspense Account

		€			€
Purchases	(i)	4,850 ❸			
Purchases	(ii)	6 ❸			
* Original difference		3,744 ❶	Creditors	(v)	8,600 ❸
		8,600			8,600

* Originally included in stock. The stock figure is now €88,600 - €3,744 = €84,856

QUESTION 7 – *solution - continued*

(c) 15

Statement of Correct Net Profit

		€	€
Original net profit as per books			63,300 ❶
Add	Discount disallowed		50 ❷
	Purchases		40 ❷
			63,390
Less	Purchases	16,500 ❶	
	Bad debts	800 ❶	
	Sales Returns	340 ❶	
	Discount allowed	100 ❶	
	Purchases returns	280 ❷	18,020
Correct Net Profit			45,370 ❹

(d) 20

Balance Sheet as at 31/12/2003

		€	€	€
Fixed Assets				
Premises				650,000 ❶
Fixtures & Fittings	(72,000 + 1,650 + 34)			73,684 ❸
				723,684
Current Assets				
Stock	(88,600 – 3,744)		84,856 ❷	
Debtors	(33,300 – 1,700 - 340)		31,260 ❸	
Cash			400 ❶	
			116,516	
Less Creditors: amounts falling due within 1 year				
Creditors	(52,000 - 8,320 + 23,000)	66,680 ❸		
Bank	(27,000 + 750)	27,750 ❷	94,430	22,086
				745,770 ❶
Financed by				
Capital			730,000 ❶	
+ Net Profit			45,370	
			775,370	
- Drawings	(28,000 + 1,600)		29,600 ❷	745,770
				745,770 ❶

QUESTION 8 - solution

68

		€	€ (per unit)
Sales: (60,000 @ €16)		960,000	16.00
Less Variable costs:			
Direct materials	331,000		
Direct labour	158,300		
Factory overheads (30%)	24,300		
Sales Commission (70c x 60,000)	42,000		
Total variable costs		555,600	9.26
Contribution		404,400	**6.74**
Less Fixed Costs:			
Factory overheads (70%)	56,700		
Administration expenses	113,400		
Selling expenses (excluding commission)	36,000	206,100	
Net Profit		198,300	

(a) Break-even point $= \frac{\text{Fixed Costs}}{\text{CPU}} = \frac{€206{,}100}{€6.74} =$ **30,579 units** 14

Margin of safety = Budgeted sales less break-even point

= 60,000 - 30,579 = **29,421 units** 6

(b) Sales in units required to provide increase of 15% in net profit

	€
Net Profit 2003	198,300
Increase in Net profit 2003 (+ 15%)	29,745
Net profit required 2004	228,045

$\frac{\text{Fixed Costs + Profit target}}{\text{CPU}} = \frac{€206{,}100 + 228{,}045}{€6.74} =$ **64,414 units** 12

QUESTION 8 - *continued*

(c) Selling price for 2004

Profit if selling price dropped to €14 in 2004

		€
Sales	(75,000 x €14.00)	1,050,000
Less Variable costs	(75,000 x €9.26)	694,500
Contribution		355,500
Less Fixed Costs	(206,100 + 14,000)	220,100
Profit		135,400

12

(d)

2003 Fixed costs	206,100
2003 Fixed costs + 10%	20,610
2004 Fixed costs	226,710

Contribution required for 2004 = Fixed costs + Profit
= 226,710 + 198,300 = €425,010

Contribution per unit 2004 = $\frac{\text{Total contribution}}{\text{Budgeted sales (in units)}}$ = $\frac{€425{,}010}{60{,}000}$ = €7.0835

Variable costs per unit = €9.2600

Selling price = **€16.3435** 12

(e) $\frac{\text{Fixed Costs}}{\text{Contribution - 10\% of S.P.}}$ $\frac{€206{,}100}{€7.74 - 1.70}$ **34,123 units** 12

(f) 2 x 6 marks 12

Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economy of scale or may increase because of increased costs

It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range

It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.

It is assumed that the selling price per unit is constant and does not allow for discounts

Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.

QUESTION 9 - Solution

(a) 60

Cash Forecast July/ December

	July	Aug	Sept	Oct	Nov	Dec
Receipts	€	€	€	€	€	€
Cash sales receipts	149,625 ❶	167,580 ❶	175,560 ❶	179,550 ❶	187,530 ❶	191,520 ❶
Credit sales receipts I month		183,750 ❶	205,800 ❶	215,600 ❶	220,500 ❶	230,300 ❶
Credit sales receipts 2 months	____	____	183,750 ❶	205,800 ❶	215,600 ❶	220,500 ❶
	149,625	351,330	565,110	600,950	623,630	642,320
Payments						
Equipment	48,000 ❷					
Wages/Labour	45,000 ❶	45,000 ❶	45,000 ❶	45,000 ❶	45,000 ❶	45,000 ❶
Variable overheads	75,000 ❶	84,000 ❶	88,000 ❶	90,000 ❶	94,000 ❶	96,000 ❶
Fixed overheads	51,200 ❷	51,200 ❶	51,200 ❶	51,200 ❶	51,200 ❶	51,200 ❶
Interest	417 ❷	417 ❶	417 ❶	417 ❶	417 ❶	417 ❶
Purchases - materials	____	147,000 ❶	314,640 ❶	340,480 ❶	352,400 ❶	364,240 ❶
	219,617	327,617	499,257	527,097	543,017	556,857
Net monthly Cash Flow	(69,992) ❶	23,713 ❶	65,853 ❶	73,853 ❶	80,613 ❶	85,463 ❶
Bank loan - Financing	50,000 ❶					
Opening balance	____	(19,992) ❶	3,721	69,574	143,427	224,040 ❶
Closing balance	(19,992	3,721	69,574	143,427	224,040	309,503 ❸

Workings - Equipment Cost €48,000. Depreciation €9,600 p.a (€800 per month) is a non cash item

(b) 20

Budgeted Profit and Loss Account

	€	€
Sales: (52,700 @ €70)		3,689,000 ❷
Less Cost of sales - Material (52,700 x €40)	2,108,000 ❷	
- Labour	270,000 ❷	
- Variable overheads	527,000 ❷	
Fixed overheads (€51,200 x 6)	307,200 ❷	3,212,200
Gross profit		476,800
Depreciation Equipment	4,800 ❷	
Discount Allowed (€3,689,000 x 30% x 5%)	55,335 ❷	60,135
		416,665
Add Discount Received (€1,724,000 x 50% x 2%)		17,240 ❷
		433,905
Less Interest		2,500 ❷
Profit		431,405 ❷

Accounting – Ordinary Level 2004

QUESTION 1 – *solution*

80

(a) Trading and Profit and Loss Account for the year ended 31 December 2003

		€	€	€
Sales less returns in	(€782,000 - €2,000)			780,000 ❻
Less Cost of sales				
Stock 1/1/2003			92,600 ❸	
Add Purchases			520,000 ❸	
			612,600	
Less Stock 31/12/2003			102,500 ❸	510,100
Gross profit				269,900
Less Expenses				
Administration ❷				
Stationery	(€700 + €4,800 - €800)	4,700 ❾		
Salaries		122,000 ❹		
Directors fees		42,600 ❹		
Light Heat and Insurance		18,000 ❹		
Depreciation – Buildings		13,200 ❹		
Depreciation - Office equipment		3,500 ❹	204,000	
Selling and Distribution ❷				
Advertising	(€9,600 - €2,400)		7,200 ❻	211,200
				58,700
Add Operating Income				
Commission				12,500 ❻
Provision for bad debts	(€4,600 - €4,200)			400 ❻
Operating profit				71,600
Less Debenture interest				8,100 ❻
Net profit for year				63,500
Less Corporation tax				12,000 ❸
Profit after taxation				51,500
Profit and loss balance 1/1/2003				40,600 ❷
Profit and loss balance carried forward 31/12/2003				92,100 ❸

(b) 40

Balance Sheet at 31 December 2003

	Cost	Accumulated Depreciation	Net	Total
Intangible fixed assets	€	€	€	€
Patents				90,000 ❷
Tangible fixed assets				
Buildings	660,000 ❷	112,200 ❸	547,800	
Office Equipment	45,000 ❷	13,500 ❸	31,500	
	705,000	125,700	579,300	579,300
				669,300
Current assets				
Stock of goods for resale			102,500 ❷	
Stock of stationery			800 ❷	
Advertising prepaid			2,400 ❸	
Commission due			1,500 ❸	
Trade debtors		84,000 ❷		
Less Provision		4,200 ❷	79,800	
			187,000	
Creditors: **amounts falling due within one year**				
Debenture interest due		2,700 ❷		
Bank		10,700 ❷		
Trade creditors		76,000 ❷		
Corporation tax due		12,000 ❷		
VAT		2,800 ❷	104,200	
Working capital				82,800
				752,100
Financed by				
Creditors: **amounts falling due after more than one year**				
11% Debentures				120,000 ❷
Capital and reserves		**Authorised**	**Issued**	
Ordinary shares at €1 each		750,000 ❶	540,000 ❶	
Profit and loss account			92,100	632,100
Capital employed				752,100

QUESTION 2 – *solution*

(a) 22

Enterprise Analysis Account - Cattle and Milk

Income	€	€
Sales - Milk	25,000 ❷	
Sales – Cattle & Calves	15,000 ❹	
Milk used by family	720 ❶	
Beef Premium	2,700 ❶	
Increase in stock - (Closing stock - Opening stock)	3,000 ❷	46,420
Less Expenses		
Purchases	16,000 ❶	
Feed	4,150 ❶	
General wages (½ of 3,500)	1,750 ❷	
Haulage (½ of 650)	325 ❷	
Rent–Conacre (½ of 2,200)	1,100 ❷	
Dairy wages	700 ❷	24,025
Profit		22,395 ❷

18

Enterprise Analysis Account - Sheep

Income	€	€
Sales - Sheep	14,800 ❷	
- Wool	900 ❷	
Ewe Premium	4,700 ❶	
Lamb used by family	365 ❶	
Increase in stock - (Closing stock - Opening stock)	2,000 ❷	22,765
Less Expenses		
Purchases - Sheep	3,300 ❶	
Feed	1,100 ❶	
General wages (½ of 3,500)	1,750 ❷	
Haulage (½ of 650)	325 ❷	
Rent (½ of 2,200)	1,100 ❷	7,575
Profit		15,190 ❷

(b) 20

General Profit and Loss Account

Income	€	€
Profit on Cattle and Milk		22,395 ❷
Profit on Sheep		15,190 ❷
		37,585
***Less* Expenses**		
Repairs and fuel	4,100 ❹	
Light and heat	1,350 ❹	
Contractor	3,800 ❹	
Fertiliser	2,900 ❹	12,150
Net Profit		25,435

QUESTION 3 – *solution*

(a) **15**

Accumulated Fund of "Ryder" Golf Club on 1/1/2003

		€	€
Assets			
Cash		2,250 ❸	
Clubhouse and Courts		490,000 ❷	
Equipment		44,000 ❷	
Building Society deposits		22,000 ❷	
Bar stock		3,300 ❷	561,550
Less Liabilities			
Subscriptions prepaid		900 ❷	
Expenses due		4,300 ❷	5,200
Accumulated fund at 1/1/2003			556,350

(b) **35**

Income and Expenditure Account for year ended 31/12/2003

		€	€
Income			
Bar profit	W 1	17,400 ❽	
Interest		550 ❷	
Subscriptions	(44,100 + 900 - 1,600)	43,400 ❻	
Advertising receipts		16,550 ❷	77,900
Less: Expenditure			
Competition prizes		1,800 ❷	
General expenses	(52,400 - 4,300 + 2,900)	51,000 ❻	
Depreciation of Equipment		11,200 ❸	
Depreciation of Clubhouse		9,800 ❸	73,800
Excess of Income over Expenditure			4,100 ❸

(c) **10**

Receipts & Payments ❹	**Income & Expenditure** ❻
Summary of an organisations cash and bank receipts and payments for the period covered by the account.	This account shows the income and expenditure of an organisation over the period covered by the account.
It is similar to a cash account	It is similar to a profit and loss account.
It shows only cash paid or received.	It takes account of accruals and prepayments
The balance at end of period is the cash on hand or overdraft	The balance at end of period is the surplus or deficit of income

Workings — **Bar Trading Account**

1	Sales			73,000
	Less Cost of goods sold			
	Stock 1/1/2003		3,300	
	Add Purchases	(51,500 + 3,900 + 500)	55,900	
	Less Stock 31/12/2003		(3,600)	55,600
	Bar Profit			17,400

QUESTION 4 – *solution*

15

Buildings Account

		€			€
01/01/02	Balance b/d	350,000 ❸	01/04/02	Disposal	100,000 ❹
01/04/02	Bank	150,000 ❸	31/12/02	Balance c/d	400,000
		500,000			500,000
01/01/03	Balance b/d	400,000			
01/01/03	Rev. Reserve	150,000 ❹	31/12/03	Balance c/d	550,000 ❶
		550,000			550,000
01/01/04	Balance b/d	550,000			

(b)

20

Provision for Depreciation on Buildings Account

		€			€
01/04/02	Disposal	12,000 ❺	01/01/02	Balance b/d	28,000 ❸
31/12/02	Balance c/d	24,000	31/12/02	Profit & Loss	8,000 ❸
		36,000			36,000
01/01/03	Rev. Reserve	24,000 ❺	01/01/03	Balance b/d	24,000
31/12/03	Balance c/d	11,000 ❶	31/12/03	Profit & Loss	11,000 ❸
		35,000			35,000
			01/01/904	Balance b/d	11,000

(c)

15

Disposal of Buildings Account

		€			€
01/04/02	Buildings	100,000 ❹	01/04/02	Provision -Depreciation	12,000 ❹
31/12/02	Profit & Loss	92,000 ❸	01/04/02	Bank	180,000 ❹
		192,000			192,000

(d)

10

Revaluation Reserve Account

		€			€
			01/01/03	Buildings	150,000 ❺
31/12/03	Balance c/d	174,000	01/01/03	Depreciation	24,000 ❺
		174,000			174,000
			01/01/04	Balance b/d	174,000

QUESTION 5 – *solution*

(a) $\boxed{40}$

1 **Percentage Mark - up on cost**

$$\frac{\text{Gross Profit x 100}}{\text{Cost of Sales}} = \frac{142{,}000 \times 100}{448{,}000} = 31.7\%$$ ⑩

2 **Closing Stock** 54,000 + 460,000 – 448,000 = €66,000 ⑩

3 **Period of credit given to Debtors**

$$\frac{\text{Debtors x 365}}{\text{Credit Sales}} = \frac{45{,}000 \times 365}{590{,}000} = 28 \text{ days}$$ ⑩

0.91 months

4 **Return on Capital Employed**

$$\frac{\text{Operating profit x 100}}{\text{Capital employed}} = \frac{(84{,}000 + 14{,}000) \times 100}{746{,}000} = 13.1\%$$ ⑩

(b) $\boxed{40}$

(i) Debentures (2008/2009): Debentures are long term loans. They must be repaid in full in 2008 or 2009. Normally assets are pledged to the lender up to the value of the loan. Interest at the rate of 7% per annum is paid in the meantime. ⑩

(ii) Intangible Assets: These are items of value that are not visible but saleable. They have a long-term value to a firm but do not have a physical presence e.g Goodwill, Patents. ⑩

(iii) Rate of Stock Turnover: This is the number of times during the year that the average stock is sold. The higher this figure is the better. It is calculated by dividing the Cost of Sales by the average Stock. ⑩

(iv) Capital Employed: This is the total amount invested in the business. It is the shareholders' funds plus the long-term liabilities. ⑩

(c) $\boxed{10}$

Businesses take risks and for this they expect to earn more than they could get by investing their money in risk-free securities. The Return on Capital Employed for 2003 was 13.1%. The return currently available from banks and building societies is less than 5% so the company is performing well. It should not consider selling out at this stage.

(d) $\boxed{10}$

In 2002 the current ratio was 1.3 to 1 and the liquid ratio was 0.7 to 1. This could be considered inadequate. However in 2003 the company is more liquid as both ratios of 2.03 to 1 and 1 to 1 are favourable when compared to business norms and indicates that the company is capable of paying it's short-term debts. In 2003 the company has €1 available immediately for each €1 owed.

QUESTION 6 – *solution*

(a) 30

Creditors Control Account

2003		€	**2003**		€
31 Dec	Cash paid	42,200 ❸	1 Jan	Balance b/d	14,600 ❸
	Balance c/d	17,400 ❸	31 Dec	***Credit Purchases**	45,000
		59,600			59,600

Debtors Control Account

2003		€	**2003**		€
1 Jan	Balance b/d	9,200❸	31 Dec	Cash	33,300 ❸
	***Credit Sales**	34,700		Balance c/d	10,600 ❸
		43,900			43,900

Total Sales	€	**Total Purchases**	€
Credit sales	34,700 ❸	Credit purchases	45,000 ❸
Cash sales	148,800 ❸	Cash purchases	87,200 ❸
Total sales	183,500	Total purchases	132,200

(b) 30

Trading and profit and Loss Account for year ended 31 December 2003

		€	€	€
Sales				183,500 ❸
Less Cost of goods sold				
Stock at 1 January 2003			11,600 ❷	
Add purchases			132,200 ❸	
			143,800	
Less Stock at 31 Dec. 2003			13,400 ❷	130,400
Gross profit				53,100
Less Expenses				
Wages and general expenses	**W 1**			37,640 ❼
				15,460
Add Rent				9,600 ❸
Commission received	**W 2**			5,530 ❻
Net profit				30,590 ❹

(c) 40

Balance Sheet at 31 December 2003

Fixed Assets		€	€	€
Premises			420,000 ❸	
Delivery Vans			41,000 ❸	
Furniture			7,200 ❸	468,200
Current Assets				
Stock		13,400 ❷		
Trade debtors		10,600 ❷		
Bank		1,100 ❹		
Commission receivable due		880 ❹	25,980	
Less Creditors: amounts falling due within 1 year.				
Trade creditors		17,400 ❷		
Accruals (Expenses)		3,400 ❹	20,800	
Net Current assets				5,180
Total Assets less current liabilities				473,380
Financed by				
Capital				
Balance at 1 Jan 2003	W 3		466,490 ❾	
Add Net profit			30,590	
			497,080	
Less Drawings			23,700 ❹	473,380
Capital employed				473,380

Workings

1	**Wages and General expenses paid**	36,800	
	Less Expenses due 1 Jan. 2003	(2,560)	
	Add Expenses prepaid 31 Dec 2003	3,400	37,640
2	**Commission received**	4,650	
	Add commission due	880	5,530
3	**Capital at 1 January 2003**		
	Assets		
	Buildings	420,000	
	Delivery vans	41,000	
	Cash	1,850	
	Stock	11,600	
	Debtors	9,200	483,650
	Less Liabilities		
	Creditors	14,600	
	Expenses due	2,560	17,160
	Capital at 1 January 2003		466,490

QUESTION 7 – *solution*

(a) **30**

Reconciliation of Operating Profit to net cash flow from operating activities:

	€
Operating profit	154,000 ❸
Depreciation	15,000 ❻
Increase in Stock	(24,000) ❻
Decrease in Debtors	5,000 ❻
Increase in Creditors	11,000 ❻
Net Cash inflow from operating activities	161,000 ❸

(b) **65**

Cash Flow Statement of Breeders Ltd for the year ended 31/12/2003

		€
Operating Activities ❷		
Net cash inflow from Operating activities		161,000 ❹
Return on investments and servicing of finance ❷		
Interest paid		(15,000) ❸
Taxation ❷		
Tax paid		(22,000) ❸
Capital expenditure and Financial Investment ❷		
Purchase of fixed assets		(60,000) ❸
Equity dividends paid ❷		
Dividends paid		(19,000) ❸
Net cash **inflow** before liquid resources and financing		45,000
Financing		
Issue of Shares	50,000 ❸	
Repayment of debentures	(100,000) ❸	
Net cash outflow from financing		(50,000)
Decrease in Cash	❸	(5,000)

(c) **5**

Reconciliation of net cash to movement in net debt

Decrease in cash during period	(5,000) ❶
Cash paid for debentures	100,000 ❶
Change in net debt	95,000 ❶
Net debt at 1/1/2003	(138,000) ❶
Net debt at 31/12/2003	(43,000) ❶

QUESTION 8 – *solution*

80

(a) Contribution per unit

	€	
Selling price	39	
Variable cost	22	
Contribution	**17**	**€17** ❿

(b) Break-even point. = $\frac{17{,}850}{17}$ = **1,050 units** ❿

(c) Marginal Costing Statements

Production levels	**1,100 units**	**1,300 units**	**1,750 units**	**2,000 units**
Sales	42,900	50,700	68,250	78,000
Less Variable cost	24,200	28,600	38,500	44,000
Contribution	18,700	22,100	29,750	34,000
Fixed cost	17,850	17,850	17,850	17,850
Profit/Loss in €1	**850** ❺	**4,250** ❺	**11,900** ❺	**16,150** ❺

(d) Level of sales required = $\frac{\text{Fixed cost + target profit}}{\text{Contribution Per Unit}}$

= $\frac{17{,}850 + 12{,}500}{17}$

= 1,786 units @ €39 = **€69,654** ⓴

(e) Margin of safety in units = 1,786 - 1,050 = **736** ⑫

Margin of safety in Euro = 736 x 39 = **€28,704** ❽

QUESTION 9 - Solution

54

(a)

Budgeted Cash Receipts	Jan	Feb	Mar	April	May	Total
Cash from Debtors	49,000 ❷	82,000 ❷	86,000 ❷	88,000 ❷	95,000 ❷	400,000
Total	49,000	82,000	86,000	88,000	95,000	400,000
Budgeted Cash Payments						
Cash for Purchases	53,300 ❷	64,000 ❷	68,000 ❷	70,000 ❷	98,500 ❹	353,800
Rent	1,250 ❷	1,250 ❷	1,250 ❷	1,250 ❷	1,250 ❷	6,250
Equipment				8,000 ❷		8,000
Wages	6,400 ❶	6,400 ❶	6,400 ❶	6,400 ❶	6,400 ❶	32,000
Total	60,950	71,650	75,650	85,650	106,150	400,050
Net Cash	(11,950) ❶	10,350 ❶	10,350 ❶	2,350 ❶	(11,150) ❶	(50)
Opening Cash	5,500 ❷	(6,450) ❶	3,900 ❶	14,250 ❶	16,600 ❶	5,500
Closing Cash	(6,450)	3,900	14,250	16,600	5,450 ❹	5,450

(b)

26

Budgeted Balance Sheet at 31/5/2004

	Cost	Depreciation	Net
Fixed Assets			
Fixed assets			440,000 ❸
Equipment			8,000 ❸
			448,000
Current Assets			
Stock		26,800 ❸	
Debtors		99,000 ❹	
Cash		5,450 ❸	
		131,250	
Less Creditors: amounts falling due within 1 year			
Trade creditors		58,000 ❹	
Net Current Assets			73,250
			521,250
Financed by			
Capital			460,000 ❸
Add Net Profit			61,250 ❸
			521,250