



Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2023

ACCOUNTING – HIGHER LEVEL (400 marks)

WEDNESDAY 21 JUNE - AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).

This section has four questions (Numbers 1 - 4). The first question (**A or B**) carries 120 marks and the remaining three questions carry 60 marks each.

Candidates should answer either **QUESTION 1 (A or B) only** OR answer any **TWO** of the remaining three questions in this section.

Section 2: Financial Accounting (200 marks).

This section has three questions (Numbers 5 - 7). Each question carries 100 marks.
Candidates should answer **TWO** of these questions.

Section 3: Management Accounting (80 marks).

This section has two questions (Numbers 8 and 9). Each question carries 80 marks.
Candidates should answer **ONE** of these questions.

Calculators

Calculators may be used in answering the questions on this paper. It is very important that workings are shown in the answer book(s) so that full credit can be given for correct work.

SECTION 1 (120 Marks)
 Answer **Question 1(A)** OR **1(B)** OR any **TWO** other questions

1. Answer (A) or (B)

(A) Sole Trader – Final Accounts

The following trial balance was extracted from the books of V. Leahy on 31/12/2022:

	€	€
Patents (incorporating 2 months investment income)	48,800	
Land and buildings	850,000	
Accumulated depreciation – land and buildings		105,000
Delivery vans	480,000	
Accumulated depreciation – delivery vans		70,000
Equipment at cost	153,500	
Discount (net)		7,700
4% Investments acquired on 01/07/2022	180,000	
Stock 01/01/2022	70,700	
Sales		1,848,900
Purchases	1,193,500	
Salaries and general expenses (incorporating suspense)	136,400	
Advertising	16,000	
Investment income received		2,200
Drawings	45,000	
Rates	42,800	
PAYE, PRSI & USC		4,700
VAT		11,900
Bank		53,600
3% Fixed mortgage (including €50,000 issued on 01/06/2022)		320,000
Mortgage interest paid for the first 4 months	2,300	
Debtors and creditors	67,700	98,600
Bad debts provision		2,100
Capital	_____	<u>762,000</u>
	<u>3,286,700</u>	<u>3,286,700</u>

The following information and instructions are to be taken into account:

- (i) Stock at cost on 31/12/2022 was €82,600. This figure includes damaged stock which cost €5,800 but which now has a net realisable value of 75% of cost.
- (ii) Goods purchased on credit from a supplier were in transit on 31/12/2022. The invoice for these goods had been received for €15,375 which included VAT at 23%. No record was made in the books in respect of this transaction.
- (iii) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale.
Note: On 30/09/2022 a delivery van which had cost €35,000 on 30/06/2018 was traded in against a new van which cost €80,000. An allowance of €3,000 was given on the old delivery van. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of these transactions.
- (iv) The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and discount received of €600 entered only in the discount account.
- (v) Patents (incorporating 2 months investment income) are being written off over 10 years which commenced in 2020.
- (vi) Goods taken by Leahy for his own personal use during the year were not recorded. The goods had a retail value of €3,600 which is cost plus 20%.
- (vii) The company revalued the land and buildings at €950,000 on 01/01/2022. The land element of this new value is €200,000. The revaluation has yet to be reflected in the accounts. Buildings are to be depreciated at the rate of 2% of cost per annum.
- (viii) The figure for the bank account in the trial balance had been taken from the firm's own records. However, a bank statement dated 31/12/2022 has arrived showing a bank overdraft of €50,300. A comparison of the bank account and the bank statement has revealed the following discrepancies:
 - 1. A credit transfer for €1,500 had been received on 31/12/2022 in respect of a debt of €1,700 previously written off as bad. The debtor has agreed to pay the remainder within 2 months. No entry was made in the books to record this transaction.
 - 2. A cheque for €1,800 issued to a director had not yet been presented for payment.
- (ix) Provision should be made for the following:
 - 1. Investment income due and mortgage interest due.
(Note: 20% of mortgage interest for the year refers to the private section of the building.)
 - 2. Provision for bad debts to be adjusted to 6% of debtors.
 - 3. Equipment to be depreciated at 10% of cost per annum.

Required:

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2022. (75)
 - (b) Prepare a balance sheet as at 31/12/2022. (45)
- (120 marks)**

(B) Company Final Accounts

East Elm Ltd has an authorised capital of €1,400,000 divided into 900,000 ordinary shares of €1 each and 500,000 4% preference shares of €1 each. The following trial balance was extracted from its books at 31/12/2022:

	€	€
Land and buildings at cost	950,000	
Accumulated depreciation – land and buildings		120,000
Office equipment (cost €65,000)	32,000	
Delivery vans (cost €175,000)	135,000	
Stock on hand 01/01/2022	55,400	
Patent (incorporating 5 months investment income)	53,300	
Profit and loss balance 01/01/2022	59,000	
Discount (net)		5,100
Purchases and sales	758,000	1,150,000
Directors fees	23,300	
Debtors and creditors	92,300	65,200
Bank		33,400
Bad debts provision		6,200
Advertising	6,700	
3% Investments acquired on 01/02/2022	124,000	
Salaries and general expenses (incorporating suspense)	232,400	
Rent received		18,000
Debenture interest paid for the first 4 months	6,400	
6% Debentures (including €60,000 issued on 01/06/2022)		280,000
VAT	2,300	
Dividends paid	45,000	
PAYE, PRSI & USC		48,200
Capital reserve		39,000
Ordinary share capital		730,000
4% Preference share capital		<u>80,000</u>
	<u>2,575,100</u>	<u>2,575,100</u>

The following information and instructions are to be taken into account:

- (i) Stock at cost on 31/12/2022 was €95,200. This figure includes damaged stock which cost €7,200 but now has a net realisable value of 25% of cost.
- (ii) Patents (incorporating 5 months investment income) are being written off over a 6 year period which commenced in 2021.
- (iii) No record has been made in the books for 'goods in transit' on 31/12/2022. The invoice for these goods had been received for €19,680 including VAT at 23%.
- (iv) Goods with a retail selling price of €12,000 were returned to a supplier. This was correctly entered in the books. The retail selling price was cost plus 25%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry was made in respect of the restocking charge.
- (v) Provide for depreciation on delivery vans at the annual rate of 15% of cost from the date of purchase to the date of sale.
Note: On 30/04/2022 a delivery van which cost €36,000 on the 30/06/2019 was traded in against a new van which cost €45,000. An allowance of €18,000 was given on the old van. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of these transaction.
- (vi) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct entry was made in the bank account) and a payment of €4,500 for PAYE, PRSI & USC entered on the incorrect side of the PAYE, PRSI & USC account, (the correct entry was made in the bank account).
- (vii) The company revalued the land and buildings at €1,100,000 on 01/01/2022. The land element of this new value is €300,000. The revaluation has yet to be reflected in the accounts. Buildings are depreciated at the rate of 2% of cost per annum.
- (viii) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2022 has arrived showing a bank overdraft figure of €31,200. A comparison of the bank account and the bank statement has revealed the following discrepancies:
 - 1. A credit transfer of €900 had been paid directly to the firm's bank account on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c in the €.
 - 2. A cheque issued for €1,300 to a director had not yet been presented for payment.
- (ix) The directors recommend that:
 - 1. Provision be made for investment income due and debenture interest due.
 - 2. Equipment is to be depreciated by 10% per annum on a reducing balance basis.
 - 3. Provision for bad debts to be adjusted to 6% of debtors.
 - 4. Provision should be made for corporation tax of €35,000.

Required:

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2022. (75)
 - (b) Prepare a balance sheet as at 31/12/2022. (45)
- (120 marks)**

2. Incomplete Records

On 01/01/2022, P. Shepard purchased a business which included the following tangible assets and liabilities:

Buildings €300,000; stock €63,000; debtors €73,200; equipment €70,000, wages due €1,700; trade creditors €57,700; rates prepaid (1 month) €450; delivery van €35,000 and cash €300.

During 2022 Shepard did not keep a full set of accounts but was able to supply the following information for the year ended 31/12/2022:

Cash Payments: Lodgements €196,000; general expenses €12,500; purchases €84,000.

Bank Payments: Interest €3,300; creditors €37,000; rates for 12 months €6,000; general expenses €81,000; equipment (purchased on 01/05/2022) €24,000 and light and heat €20,700.

The payment for general expenses includes a payment of €4,100 for a diesel bill. It is estimated that 20% of this diesel bill relates to Shepard's private use.

Bank Lodgements: Debtors €46,000, cash €196,000.

Each week Shepard took goods from stock to the value of €120 and cash €180 for household expenses.

On 01/08/2022 Shepard borrowed €150,000 all of which was used to purchase an adjoining building on the same date. Interest was to be charged on the loan at the rate of 7% per annum. The capital sum borrowed is to be repaid using an investment fund which has been set up. Payments were made into this investment fund from the business bank account. The fund had earned interest of €150 by 31/12/2022.

Shepard estimated that 15% of light and heat used and 20% of interest payable should be attributed to private use.

Shepard has decided that equipment be depreciated at 10% of cost per annum, buildings at 2% of cost per annum and delivery vans at 20% of cost per annum.

Shepard has also decided to set up a provision for bad debts amounting to 4% of debtors on 31/12/2022.

Included in the assets and liabilities of the firm on 31/12/2022 were stock €40,700 (which includes a stock of heating oil €500), electricity due €700, debtors €43,000, trade creditors €55,400, cash €430 and wages due €1,400.

Required:

- (a) Prepare the trading and profit and loss account for Shepard, for the year ended 31/12/2022. (Show your workings). (52)
- (b) (i) What additional information would be available to Shepard if he used the double entry system to record financial transactions?
(ii) What advice would you give Shepard in relation to record keeping? (8)

(60 marks)

3. Creditors Control Account

The creditors' ledger control account of T. Gallagher showed the following balances: €48,760 cr and €280 dr on 31/12/2022. These figures did not agree with the schedule (list) of creditors balances extracted on the same date. An examination of the books revealed the following:

- (i) Purchases of €9,570 had been entered on the debit side of a supplier's account. This figure included cash purchases of €2,300.
- (ii) Gallagher had received an invoice from a supplier for €730. This had been entered in the appropriate day book as €370. However, when posting from the daybook to the ledger no entry had been made in the supplier's account.
- (iii) Discount disallowed by a supplier of €94 had been recorded as discount received €90 in the general ledger and debited as €9 in the supplier's account.
- (iv) Gallagher had returned goods costing €650 to a supplier and had entered this correctly in the books. However, a credit note arrived showing a deduction of 10% for a restocking charge. The total amount of this credit note was debited to the creditor's account. In relation to the credit note no other entry was made in the books.
- (v) A credit note was received from a supplier for €580. The only entry made in the books was €58 credited to the supplier's account.
- (vi) Gallagher had a customer who was also a supplier to the business. This customer owed Gallagher €420 and they agreed to offset one debt against the other. The offset was entered as €240 on the correct side of the supplier's account. This was the only entry made in the books.

Required:

- (a) Prepare the adjusted creditors ledger control account. (24)
 - (b) Prepare the adjusted schedule (list) of creditors showing the original balance. (28)
 - (c) (i) Explain why creditors control accounts are prepared.
(ii) Explain the term restocking charge and outline how it might arise. (8)
- (60 mark)**

4. Tabular Statement

The financial position of Weber Ltd, a butcher, on 01/01/2022 is shown in the following balance sheet:

Balance Sheet as at 01/01/2022			
	Cost	Dep. to date	Net
	€	€	€
Fixed Assets			
Land and buildings	820,000	75,000	745,000
Vehicles	<u>86,000</u>	<u>30,500</u>	<u>55,500</u>
	<u>906,000</u>	<u>105,500</u>	800,500
Current Assets			
Stock	38,000		
Debtors (less provision 3%)	<u>66,445</u>	104,445	
Less Creditors: amounts falling due within 1 year			
Creditors	53,700		
Bank	18,650		
VAT	<u>5,230</u>	<u>77,580</u>	<u>26,865</u>
			<u>827,365</u>
Financed by			
Capital and Reserves			
Authorised – 1,000,000 ordinary shares of €1 each			
Issued – 750,000 ordinary shares of €1 each		750,000	
Share premium		10,000	
Profit and loss balance		<u>67,365</u>	<u>827,365</u>
			<u>827,365</u>

The following transactions took place during 2022:

- Jan Weber Ltd decided to revalue land and buildings on 01/01/2022 at €950,000. The land element of the new value is €150,000.
- Feb Weber Ltd bought an adjoining business on 01/02/2022 which included buildings €126,000, debtors €17,600 and creditors €22,000. The purchase price was discharged by granting the seller 120,000 shares in Weber Ltd at a premium of 20c per share.
- April Management decided on 30/04/2022 that the provision for bad debts should be increased to 4% of outstanding debtors.
- June Received a bank statement on 30/06/2022 showing a credit transfer received of €3,600 to cover 9 month's rent received in advance from 01/06/2022 and a direct debit of €6,000 to cover rates for the year ended 30/05/2023.
- Sept Goods previously sold for €1,845 by Weber Ltd were returned. This figure includes VAT at 23% and a mark-up on cost of 20%. Weber Ltd issued a credit note for €1,650 due to a delay in returning these goods.
- Nov A vehicle which cost €25,500 on 01/11/2020 was traded in for a new vehicle which cost €42,000 on 01/11/2022. An allowance of €12,000 was made for the old vehicle. Depreciation on vehicles is calculated from the date of purchase to the date of sale at a rate of 20% of cost per annum.
- Dec The depreciation charge for the year on buildings is to be 2% of book value. The depreciation charge is to be calculated from the date of valuation or date of purchase as appropriate.
The total depreciation charge on vehicles for the year is €18,550.

Required:

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2022.

(60 marks)

SECTION 2 (200 marks)Answer **two** questions**5. Interpretation of Accounts**

The following figures have been extracted from the final accounts of O'Malley Ltd, a retailer in the fast food industry, for the year ended 31/12/2022. The company has an authorised capital of €750,000 made up of 550,000 ordinary shares of €1 each and 200,000 4% preference shares of €1 each. O'Malley Ltd has already issued 450,000 ordinary shares and 100,000 4% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2022		Ratios and information for year ended 31/12/2021	
	€		
Sales	956,000	Earnings per ordinary share	23c
Costs of goods sold	(560,000)	Dividend cover	2.57 times
Operating expenses for year	(260,000)	Market value of one ord. share	€1.25
Interest for year	<u>(32,000)</u>	Return on capital employed	14.28%
Net profit for year	104,000	Gearing	35%
Dividends paid	<u>(40,000)</u>	Interest cover	7.12 times
Retained profit	64,000	Quick Ratio	1.5:1
Profit and loss balance 01/01/2022	<u>14,000</u>	Price earnings ratio	5.43 times
Profit and loss balance 31/12/2022	<u><u>78,000</u></u>		

Balance Sheet as at 31/12/2022		
	€	€
Fixed Assets		670,000
Investments (market value 31/12/2022, €310,000)		<u>300,000</u>
		970,000
Current Assets (including stock €42,000)	140,000	
Less Creditors: amounts falling due within 1 year		
Trade creditors	(50,000)	
Other creditors	<u>(32,000)</u>	<u>58,000</u>
		<u>1,028,000</u>
Financed by:		
8% Debentures (2026 secured)		400,000
Capital and Reserves		
Ordinary shares of €1 each	450,000	
4% Preference shares of €1 each	100,000	
Profit and loss balance	<u>78,000</u>	<u>628,000</u>
		<u>1,028,000</u>

Market value of one ordinary share on 31/12/2022 is **€1.30**.

- (a) You are required to calculate the following for 2022:**
(where appropriate calculations should be made to **two** decimal places).
- (i) The opening stock if the rate of stock turnover is 14 based on average stock
 - (ii) Return on capital employed
 - (iii) Price earnings ratio
 - (iv) Dividend cover
 - (v) Dividend yield. (50)
- (b)** Indicate whether the debenture holders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)
- (c)** (i) Distinguish between the terms liquidity and solvency when used in ratio analysis.
(ii) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (10)
- (100 marks)**

6. Published Accounts

Goodwin plc has an authorised share capital of €800,000 divided into 500,000 ordinary shares of €1 each and 300,000 4% preference shares of €1 each. The following trial balance was extracted from its books on 31/12/2022:

	€	€
Buildings at cost	750,000	
Buildings – accumulated depreciation on 01/01/2022		60,000
Vehicles at cost	510,000	
Vehicles – accumulated depreciation on 01/01/2022		204,000
3% Investments (purchased 01/02/2022)	300,000	
Debtors and creditors	291,000	356,000
Stock 01/01/2022	69,000	
Patent 01/01/2022	95,000	
Administrative expenses	109,000	
Distribution costs	444,000	
Insurance	8,000	
Bad debts	2,500	
Purchases and sales	1,650,000	2,730,000
Rental income		50,000
Profit on sale of land		85,000
Dividends paid	27,000	
Bank	89,000	
VAT		5,000
6% Debentures (2028 secured)		200,000
Profit and loss account 01/01/2022		50,000
Investment income		7,000
Issued capital		
Ordinary shares		300,000
4% preference shares		250,000
Provision for bad debts		23,500
Debenture interest paid	9,000	
Discount		<u>33,000</u>
	<u>4,353,500</u>	<u>4,353,500</u>

The following information is relevant:

- (i) Stock on 31/12/2022 was €90,000.
- (ii) During the year the land adjacent to the company's premises, which had cost €165,000 was sold for €250,000. At the end of the year the company revalued its buildings at €930,000. The company wishes to reflect this valuation in this year's accounts.
- (iii) Provide for debenture interest due, investment income due, auditor's fees €16,000, director's fees €45,000 and corporation tax €99,000.
- (iv) Included in distribution expenses is €14,000 for commission earned.
- (v) Depreciation is to be provided for on buildings at a rate of 2% per annum straight line and is to be allocated 20% to distribution costs and 80% to administrative expenses. There was no purchase or sale of buildings during the year.
Depreciation is to be provided for on vehicles at a rate of 20% per annum on a reducing balance basis.
- (vi) The patent was acquired on 01/01/2018 for €171,000. It is being amortised over 9 years in equal instalments. The amortisation is to be included in cost of sales.
- (vii) The company is being sued by a former employee who is claiming unfair dismissal. The former employee is seeking compensation for €72,000 (2 years wages). The company's legal team have advised that as all proper procedures were followed in the course of the dismissal, it is unlikely the compensation will have to be paid to the former employee. The company has received an invoice for legal fees to the value of €9,000.

Required:

- (a) Prepare the published profit and loss account of Goodwin plc for the year ended 31/12/2022, and the balance sheet as at that date in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:
 - 1. Accounting policy note for tangible fixed assets and stock.
 - 2. Operating profit.
 - 3. Tangible fixed assets.
 - 4. Dividends.
 - 5. Contingent Liability. (90)
- (b) (i) Explain what is meant by an audit.
(ii) Outline the factors that an auditor will take into consideration when forming their opinion in order to prepare their report. (10)

(100 marks)

7. Service Firm

The following were included in the assets and liabilities of All Whites Ltd, a dental clinic on 01/01/2022:

Clinic at cost €800,000; equipment at cost €130,000; contract cleaning prepaid €400; stock of dental supplies for use in clinic €7,000; stock of dental products for shop €8,000; creditors for dental supplies to the clinic €3,000; fees due from private patients €2,100; investment interest due €800.

The authorised capital of the company was €800,000 and the issued capital was €450,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2022.

The following is a receipts and payments account for the year ended 31/12/2022:

Receipts and Payments Account of All Whites Ltd for year ended 31/12/2022

	€		€
Balance at bank 01/01/2022	54,000	Light and heat	8,300
Receipts from private patients	198,000	Contract cleaning of clinic	9,200
Receipts from medical card scheme	106,000	Postage	1,500
Interest on 4% investments (4 months)	1,600	Insurance	6,300
Sale of dental products in shop	53,000	Purchases – dental products for shop	23,000
Sale of equipment (cost €15,000)	5,400	Purchases – dental supplies for clinic	31,500
		Telephone and broadband	1,900
		Wages and salaries	72,000
		Equipment	27,500
		Rates	11,600
		Repayment of a bank loan plus 16 months interest at 3% per annum on 01/08/2022	83,200
	_____	Balance at bank 31/12/2022	<u>142,000</u>
	<u>418,000</u>		<u>418,000</u>

The following information and instructions are to be taken into account:

- (i) Closing stock at 31/12/2022: dental supplies €1,800; products for sale in shop €6,200; heating oil €400.
- (ii) Cleaning is carried out by a contractor payable monthly in advance and includes a payment of €750 for January 2023.
- (iii) Fees received from private patients include €4,700 for work to be carried out in 2023. Fees due on 31/12/2022 from private patients and medical card scheme are €1,800 and €2,700 respectively.
- (iv) The closing bank balance does not take into account bank charges €90 and a dishonoured cheque €950 which was received from a private patient in respect of fees for work carried out in 2022.
- (v) Wages and salaries include €26,000 per annum paid to the secretary, who also runs the shop. It is estimated that 30% of this salary, €1,150 of the insurance, €1,500 of light and heat and €600 of the telephone and broadband are attributable to the shop.
- (vi) Creditors for dental supplies at 31/12/2022 were €3,800.
- (vii) Depreciation is to be provided as follows:
Clinic - 2% of cost per annum.
Equipment - 20% of cost per annum.

The depreciation policy of the firm for equipment is to charge a full year's depreciation in the year of acquisition and none in the year of disposal. During the year equipment which cost €15,000 in 2019 was sold for €5,400. On the same day new equipment was purchased for €27,500.

- (viii) On 31/12/2022 All Whites Ltd decided to revalue the clinic to €950,000.

Required:

- (a) Prepare a statement of the company's reserves (profit and loss balance) on 01/01/2022. (18)
- (b) Calculate the profit/loss from the shop for the year ended 31/12/2022.
(Show workings.) (10)
- (c) Prepare a profit and loss account for the year ended 31/12/2022. (38)
- (d) Prepare a balance sheet on 31/12/2022. (24)
- (e) All Whites Ltd is considering increasing fees for its private patients by 10% due to increased running costs. Explain with reference to the accounts the advice you would give to the management of All Whites Ltd in relation to this proposed increase in fees. (10)

(100 marks)

SECTION 3 (80 marks)Answer **one** question**8. Marginal and Absorption Costing**

- (a) Wilson Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2022, during which 80,000 units were produced and sold, was as follows:

	€	€
Sales (80,000 units)		2,160,000
Materials	420,000	
Direct labour	376,000	
Factory overheads	340,000	
Administration expenses	152,500	
Selling expenses	<u>182,750</u>	<u>1,471,250</u>
Net profit		<u><u>688,750</u></u>

The materials and direct labour are variable costs.

Apart from a sales commission of 5% of sales, selling and administration expenses are fixed. Factory overheads are mixed costs, and have behaved in the past as follows:

Year ended	Output (units)	Factory overheads in €
31/12/2021	100,000	420,000
31/12/2020	70,000	300,000
31/12/2019	25,000	120,000

Required:

- (i) Calculate the variable and fixed elements of factory overheads using the high/low method. (Show your workings).
- (ii)
 - a) Calculate the company's break-even point and margin of safety.
 - b) Explain what is meant by the term margin of safety. Reference the figures you have calculated in part (ii)(a) in your answer.
- (iii) Calculate the number of units that must be sold at €30 per unit to provide a profit of 10% of the sales revenue earned from these same units.
- (iv) Calculate the selling price the company must charge per unit in 2023, if
 - sales commission is increased to 6% of sales and
 - fixed costs increase by 10%
 The volume of sales and the profit earned are to remain the same.

- (b) Sky Ltd produced 12,000 units of product Q during the year ended 31/12/2022. 9,000 of these units were sold at €6 per unit. The production costs were as follows:

Direct materials	€0.80 per unit
Direct labour	€1.75 per unit
Variable overhead	€0.60 per unit
Fixed overhead cost for the year	€4,000

Required:

- (i) Prepare profit and loss statements under marginal costing and absorption costing principles for Sky Ltd.
- (ii) Outline the benefits of absorption costing.

(80 marks)

9. Budgeting

Lupin Ltd is preparing to set up a business on 01/01/2024. Lupin plans to lodge €80,000 into the business bank account. Lupin Ltd has made the following forecast for the first six months of trading:

	Jan	Feb	March	April	May	June	Total
Sales	€468,000	€544,500	€567,000	€585,000	€594,000	€661,000	€3,419,500
Purchases	€436,000	€320,000	€325,000	€330,000	€335,000	€345,000	€2,091,000

- (i) The expected selling price is €50 per unit.
- (ii) The cash collection pattern from sales is expected to be as follows:
- Cash customers:** 40% of sales revenue will be for immediate cash and a cash discount of 5% will be allowed.
- Credit customers:** 60% of sales revenue will be from credit customers. These debtors will pay their bills 60% in the month after sale and the remainder in the second month after sale.
- (iii) The cash payment pattern for purchases is expected to be:
- Credit suppliers** The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.
- (iv) Expenses of the business will be settled as follows:
- Expected costs** Wages €84,500 per month, payable as incurred.
Variable overheads €4 per unit, payable as incurred.
Fixed overheads (including depreciation) €82,000 per month, payable as incurred.
- Capital costs** Equipment will be purchased on 01/01/2024 costing €36,000 which will have a useful economic life of 5 years and have a scrap value of 5% of the original cost.
- To finance this purchase, a loan of €24,000 will be secured on 01/01/2024. Interest will be charged at 8% per annum. The interest for each month is to be paid on the last day of the month based on the amount of the loan outstanding at that date. The capital sum is to be repaid in 32 monthly instalments commencing on 01/02/2024.

Required:

- (a) Prepare a cash budget for Lupin Ltd for each of the six months January to June 2024.
- (b) Prepare a budgeted trading and profit and loss account for Lupin Ltd for the six months ending 30/06/2024.
- (c) (i) What factors should be taken into consideration by Lupin Ltd in arriving at the expected sales figures for the first six months of 2024?
(ii) On the basis of the cash budget you have prepared in (a) above, what advice would you give to the management of Lupin Ltd?

(80 marks)

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