Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2022

ACCOUNTING - HIGHER LEVEL

(300 marks)

WEDNESDAY 22 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** (100 marks).
This section has three questions (Numbers 5 - 7). Each question carries 100 marks. Candidates should answer **ONE** 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.

The 2022 examination papers were adjusted to compensate for disruptions to learning due to COVID-19.
This examination paper does not necessarily reflect the same structure and format as the examination papers of past or subsequent years.

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

1. Answer (A) <u>OR</u> (B)

(A) Company Final Accounts including a Manufacturing Account

McGuigan Ltd has an authorised capital of €2,000,000 divided into 1,500,000 ordinary shares at €1 each and 500,000 4% preference shares at €1 each.
The following trial balance was extracted from the books on 31/12/2021:

	€	€
Plant and machinery (cost €340,000)	290,000	
Factory buildings (cost €890,000)	865,000	
Hire of special equipment	37,800	
General factory overheads (including suspense)	126,700	
Stocks on hand 01/01/2021		
Raw materials	27,300	
Work in progress	38,650	
Finished goods	38,400	
Direct factory wages	148,000	
Purchase of raw materials	760,400	
Royalty payments	29,600	
Sale of scrap materials		18,950
Selling expenses	45,000	
Administration expenses	57,900	
Sales		1,650,000
Discount (net)		5,350
Rent		15,700
4% Investments acquired on 01/04/2021	250,000	
Investment interest received		2,800
Profit and loss balance 01/01/2021		69,500
PAYE, PRSI & USC		1,850
8% Debentures (including €50,000 issued on 01/04/2021)		300,000
Debenture interest paid	5,000	
Bad debt provision		3,050
Dividends paid	27,500	
Bank		85,000
Debtors and creditors	76,350	61,400
Issued share capital - ordinary shares		460,000
4% preference shares		150,000
	2,823,600	2,823,600

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

(i) Stocks on hand at 31/12/2021:

	Raw materials	€28,300
	Work in progress	€27,600
	Finished goods	€58,000

(ii) No entry has been made in the books for sale of goods to a debtor on 31/12/2021. An invoice had been sent for €10,800, which included a mark-up on cost of 20%. The goods were not dispatched until 02/01/2022 and were included in closing stock.

(iii) Included in the figure for sale of scrap materials is €7,000 received from the sale of an old machine on 31/03/2021. This machine had cost €30,000 on 01/09/2016.

(iv) Plant and Machinery is to be depreciated at a rate of 15% of cost from the date of purchase to the date of sale.

(v) The suspense figure arises as a result of discount received €1,400 entered only in the discount account and credit purchases of raw materials €11,000 which were entered only in the creditors account.

(vi) Provide for a recent wage increase of 2% to be backdated to cover the three months from 01/10/2021.

(vii) During 2021 a store was built by the firm's own employees. The cost of their labour €60,000 (before wage increase) had been treated as a business expense and the materials costing €62,000 were taken from the firm's stocks. The building work commenced on 01/01/2021 and took 12 months to complete. No entry had been made in the books for the store.

(viii) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2021 shows an overdraft of €76,200. A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A credit transfer for €3,500 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 70c for every €1 owed.
2. A cheque for €6,300 received from a debtor had been entered in the books (cash book and ledger) as €5,700.
3. A cheque for fees of €4,700 issued to a creditor had not been presented for payment by 31/12/2021.

(ix) Provision should be made for the following:

1. Investment income due and debenture interest due.
2. Provision for bad debts to be adjusted to 4% of debtors.
3. Depreciation on buildings at a rate of 2% of cost per annum.

Required:

(a) Prepare a manufacturing, trading and profit and loss account for the year ended 31/12/2021. (75)

(b) Prepare a balance sheet as at 31/12/2021. (45)

(120 marks)

(B) Company Final Accounts

McCormack Ltd, has an authorised capital of €2,500,000 divided into 1,500,000 ordinary shares at €1 each and 1,000,000 4% preference shares at €1 each. The following trial balance was extracted from the books on 31/12/2021:

	€	€
Land and buildings (Land at cost €1,000,000)	1,760,000	
Office equipment (Cost €460,000)	357,000	
Profit and loss balance 01/01/2021		127,000
Discount		17,500
Debenture interest paid	7,500	
4% Investments 01/04/2021	75,000	
Stock 01/01/2021	51,500	
Patents	64,000	
Purchases and sales	905,000	1,850,000
Bad debt provision		7,000
Debtors and creditors	249,800	81,500
Bank		68,300
Wages and salaries	196,700	
6% Debentures (including €60,000 issued on 01/06/2021)		360,000
Dividends paid	65,100	
Directors fees	91,000	
VAT	1,000	
PAYE, PRSI, USC		27,700
Sales commission	32,000	
Insurance	25,000	
Advertising	8,400	
Ordinary share capital		1,000,000
4% Preference share capital		350,000
	3,889,000	3,889,000

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

(i) Stock at cost on 31/12/2021 was €82,800. It was discovered that goods had been received from a creditor on 31/12/2021 on a 'sale or return' basis. These goods had been entered in the books as a credit purchase. The retail value of the goods was €9,250 which included a mark-up on cost of 25%.

(ii) Provide for depreciation on office equipment. A full year's depreciation is charged in the year of acquisition and none in the year of disposal. It is estimated that office equipment has a useful economic life of six years with a residual scrap value of 4% of original cost. **Note:** On 30/04/2021 equipment which cost €65,000 on 01/10/2017 was traded in against new equipment costing €45,000. An allowance of €23,000 was made on the old equipment. 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. This was the only entry made in the books in respect of this transaction.

(iii) During the year a warehouse which cost €120,000 was destroyed by fire. The insurance company has agreed to contribute €115,000 in compensation.

(iv) Buildings are to be depreciated by 2% of cost per annum.

(v) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2021 has arrived showing an overdraft of €48,950. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A cheque for fees of €4,950 issued to a director had not been presented for payment by 31/12/2021.
2. A cheque for €26,700 issued to a supplier had been entered in the books (cash book and ledger) as €27,600.
3. A credit transfer for €4,500 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c for every €1 owed.
4. A credit transfer for €9,000 had been received on 31/12/2021 from a debtor in respect of a debt previously written off as bad. This represents 75% of the original debt. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.

(vi) Patents, which incorporate 4 months investment income, are being written off over a five-year period which commenced in 2020.

(vii) The Directors recommend that:

1. Provision should be made for both investment income due and debenture interest due.
2. The managing director should be paid a bonus commission of 2% on all sales in excess of €1,500,000.
3. Provision for bad debts to be adjusted to 3% of debtors.
4. A transfer of €250,000 should be made from profit to the capital reserve.
5. Provision for corporation tax of €60,000 is to be recorded.

Required:

(a) Prepare a trading and profit and loss account for the year ended 31/12/2021. (75)

(b) Prepare a balance sheet as at 31/12/2021. (45)

(120 marks)

2. Cash Flow Statement

The following are the balance sheets of Puspure plc as at 31/12/2021 and 31/12/2020 together with an abridged profit and loss account for the year ended 31/12/2021.

Abridged Profit and Loss Account for the year ended 31/12/2021	**€**
Operating Profit	227,000
Investment income for the year	3,800
Interest for the year	(12,000)
Profit before taxation	218,800
Taxation for the year	(66,000)
Profit after taxation	152,800
Dividends paid	(30,800)
Retained profit for the year	122,000
Retained profit on 01/01/2021	268,650
Retained profit on 31/12/2021	390,650

Balance Sheets as at	**31/12/2021**		**31/12/2020**	
Financial Assets	€	€	€	€
Investments at cost		165,000		185,000
Fixed Assets				
Land and buildings at cost	850,000		732,000	
Less accumulated depreciation	(75,000)	775,000	(60,000)	672,000
Machinery at cost	397,000		438,000	
Less accumulated depreciation	(209,000)	188,000	(187,600)	250,400
		1,128,000		1,107,400
Current Assets				
Stock	214,600		178,600	
Debtors	185,200		171,800	
Bank	14,000		-	
Investment income due	1,050		950	
Government securities	35,000		10,000	
	449,850		361,350	
Less Creditors: Amounts falling due within 1 year				
Trade creditors	250,600		241,600	
Debenture interest due	2,600		2,000	
Bank	-		8,500	
Corporation tax	52,000		48,000	
	305,200	144,650	300,100	61,250
		1,272,650		1,168,650
Financed by:				
Creditors: Amounts falling due after 1 year				
6% Debentures		100,000		200,000
Capital and Reserves				
Ordinary shares @ €1 each	770,000		700,000	
Share premium	12,000		-	
Profit and loss account	390,650	1,172,650	268,650	968,650
		1,272,650		1,168,650

The following information is also available:

(i) There were no disposals of buildings during the year but new buildings were acquired.

(ii) There were no purchases of machinery during the year. Machinery was disposed of for €33,000.

(iii) Depreciation charged for the year in arriving at operating profit included €30,400 on machinery.

Required:

(a) Prepare the cash flow statement of Puspure plc for the year ended 31/12/2021 including reconciliation statements. (52)

(b) (i) Financial Reporting Standard 1 requires companies to prepare a cash flow statement. What is a Financial Reporting Standard?

(ii) Distinguish between a cash gain and a non-cash gain for Puspure plc. Give one example of each from the financial statements of Puspure plc.

(8)

(60 marks)

3. Correction of Errors and Suspense Account

The trial balance of Fletcher Ltd, a sports clothing retailer, failed to agree on 31/12/2021. The difference was entered in a suspense account.

On checking the books, the following errors and omissions were discovered:

(i) Credit purchases by Fletcher for €2,400 from E Hegarty had been entered in the day books as €2,040 and was subsequently posted on the incorrect side of Hegarty's account as €4,020.

(ii) A private debt €750 owed by Fletcher had been offset in full settlement against a business debt €800 owed to Fletcher Ltd. No entry had been made in the books in respect of this transaction.

(iii) A payment of €1,000 was received from F Murtagh a former debtor, whose debt had previously been written off and wishes to trade with Fletcher Ltd again. This represents 80% of the original debt and Murtagh has undertaken to pay the remainder of the debt by February 2023. The only entry made in respect of this transaction was that the full amount written off was credited to the debtors account.

(iv) A credit note sent to K Mullan for €240 had been misread as a credit note received from A Keogh and recorded as such.

(v) Equipment which cost €8,400 and with a book value of €3,360 was sold for cash €3,300. This had been entered as €3,630 on the debit side of the sales account and on the credit side of a debtor's account.

Required:

(a) Journalise the necessary corrections. (40)

(b) Prepare a statement showing the corrected net profit if the original profit was €27,900. (12)

(c) (i) What is the purpose of preparing a trial balance?

(ii) Outline different types of errors that may affect the balancing of the trial balance. (8)

(60 marks)

4. Revaluation of Fixed Assets

On 1 January 2007, Ryan Ltd purchased new property for €900,000 consisting of land €150,000 and buildings €750,000. The company depreciates buildings at the rate of 2% per annum using the straight-line method. Land is not depreciated. It is company policy to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.

The following details were taken from the company's books:

Jan 1 2017	Revalued property at €1,080,000. Of this revaluation, €210,000 was attributable to the land purchased on 01/01/2007.
Jan 1 2018	Purchased a building for €250,000. Additionally, during 2018, €90,000 was paid to a building contractor for an extension to this building. The company's own employees also worked on the extension to this building. The employees' wages for the period of this work amounted to €30,000.
Jan 1 2019	Sold for €235,000, land that had cost €150,000 and was subsequently revalued on 01/01/2017. Ryan Ltd spent €14,000 in respect of repairs to the existing building's roof.
Jan 1 2020	Revalued buildings owned at €1,426,000 (a 15% increase in respect of each building).
Jan 1 2021	Sold for €980,000 the buildings owned on 01/01/2017. The remaining buildings were revalued at €475,000.

Required:

(a) (i) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31/12/2017 to 31/12/2021.
(Bank account and profit and loss account are **not** required).

(ii) Show the relevant extract from the balance sheet as at 31/12/2021. (52)

(b) (i) Distinguish between the straight line method and reducing balance method of depreciation.

(ii) Why would a company choose one method of depreciation over another? (8)

(60 marks)

SECTION 2 (100 marks)
Answer any **ONE** question

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Watson plc, a manufacturer of confectionary, for the year ended 31/12/2021. The company has an authorised capital of €1,100,000 made up of 500,000 ordinary shares at €1 each and 600,000 6% preference shares at €1 each.

Trading and Profit and Loss Account for year ended 31/12/2021	
	€
Sales	950,000
Costs of goods sold	(682,000)
Operating expenses for year	(192,000)
Interest for year	(35,000)
Net profit for year	41,000
Dividends paid	(18,000)
Retained profit	23,000
Profit and loss balance 01/01/2021	78,000
Profit and loss balance 31/12/2021	101,000

Ratios and information for year ended 31/12/2020	
Earnings per ordinary share	8.4c
Dividend per ordinary share	2.0c
Interest cover	1.9 times
Quick ratio	2.3:1
Market value of one ord. share	€1.48
Return on capital employed	4.56%
Gearing	60%
Dividend cover	4.2 times
Dividend yield	1.35%

Balance Sheet as at 31/12/2021			
	€	€	€
Fixed Assets:			
Intangible		300,000	
Tangible		487,000	787,000
4% Investments (market value 31/12/2021 €270,000)			250,000
			1,037,000
Current Assets:			
Closing stock	15,000		
Debtors	76,500		
Other current assets	20,000	111,500	
Less Creditors: **amounts falling due within 1 year**			
Trade creditors	21,000		
Other Creditors	11,500	(32,500)	79,000
			1,116,000
Financed by:			
7% Debentures (2028 secured)			500,000
Capital and Reserves			
Ordinary shares @ €1 each		365,000	
6% Preference shares @ €1 each		150,000	
Profit and loss balance 31/12/2021		101,000	616,000
			1,116,000

Market value of one ordinary share on 31/12/2021 is **€1.40**.

(a) **You are required to calculate the following for 2021**:
(where appropriate calculations should be made to **two** decimal places).

(i) Cash purchases if the period of credit received from trade creditors is 3.6 months, and 20% of total purchases are cash purchases.

(ii) Price earnings ratio.

(iii) The return on shareholders' funds.

(iv) Dividend cover.

(v) Gearing.

(50)

(b) Advise the bank manager whether a loan of €500,000, on which a rate of 8% would be charged, should be granted to Watson plc. The loan is to finance the expansion of the business into the European market. Use relevant ratios, percentages and other information to support your answer.

(40)

(c) The gross profit percentage of Watson plc in 2020 was 36%.

(i) Calculate the gross profit percentage for Watson plc in 2021.

(ii) Give possible reasons for the change in gross profit percentage in 2021.

(iii) Outline how a company could improve their gross profit percentage.

(10)

(100 marks)

6 Incomplete Records

On 01/01/2021, M McSharry lodged €1,350,000 into a business bank account and on the same day purchased a business for €1,325,000 which included the following tangible assets and liabilities: Premises €800,000; Equipment €225,000; Stock €46,140; 3 months Rates Prepaid €8,100; Debtors €88,320; Trade Creditors €54,000; Wages Due €3,200 and 1.5% Investments €192,000.

During 2021 McSharry did not keep a full set of accounts but estimates that gross profit was 25% of sales. McSharry was able to supply the following information on 31/12/2021.

(i) Each week McSharry took goods from stock to the value of €120 and cash €250 for household expenses.

(ii) The following were lodged to the business bank account during the year**:** Investment interest of €2,400 (from the existing business investments) and private inheritance of €290,000.

(iii) On 01/07/2021 the business purchased an adjoining premises costing €180,000. To fund this purchase, on 01/07/2021 the business borrowed 80% of the cost of the premises.
It was agreed that, interest would be charged at a rate of 3% per annum to be paid monthly at the end of each month. The capital sum borrowed would be repaid in 20 equal instalments over 10 years. The first repayment was due on 01/01/2022.

(iv) The following payments from the business bank account were made during the year**:** Light and heat €5,460, wages and general expenses €165,750 (including €2,800 for insurance), delivery van €56,000, equipment (purchased on 01/07/2021) €60,000. Rates for 12 months €27,600, loan interest €2,000, cleaning expenses €4,000.

(v) McSharry estimated that 30% of insurance, 25% of cleaning expenses and 10% of light and heat should be attributed to private use.

(vi) Depreciation is provided for as follows;
- equipment at the annual rate of 12.5% of cost from the date of purchase to the date of sale.
- delivery van at 20% of cost for a full year.

(vii) The business has decided to set up a provision for bad debts amounting to 3% of debtors on 31/12/2021.

(viii) Included in the assets and liabilities of the firm on 31/12/2021 were bank €108,600, stock €85,122 (which includes a stock of heating oil €1,100), debtors €121,500, wages due €4,750, trade creditors €57,800 and electricity due €240.

Required:

(a)	Prepare, with workings, a statement/balance sheet showing McSharry's profit or loss for the year ended 31/12/2021.	(40)
(b)	Prepare a trading, profit and loss account, in as much detail as possible, for the year ended 31/12/2021.	(50)
(c)	There are four fundamental accounting concepts applied in the preparation of accounts. Explain two fundamental accounting concepts, with reference to how they apply to the accounts of McSharry.	(10)
		(100 marks)

7. Club Accounts

Included in the assets and liabilities of Abbey Hockey Club on 01/01/2021 were the following:

Clubhouse and Astroturf at cost €950,000, bar stock €1,820, equipment at cost €42,000, bar debtors €560, life membership €48,000, bar creditors €700, wages due €440, levy reserve fund €50,000, subscriptions received in advance €1,000, investment interest receivable due €420.

All fixed assets already have 3 year's depreciation accumulated at 01/01/2021

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2021.

Receipts and Payments account for the year ended 31/12/2021

Receipts	**€**	**Payments**	**€**
Balance 01/01/2021	9,800	Catering purchases	93,100
Subscriptions	425,500	Bank loan and 9 months' interest at 8% per annum on 30/06/2021	273,480
10 months Interest on 5% investments, up to 30/06/2021	1,050	Sundry expenses	64,360
Competition fees	22,400	Bar purchases	43,800
Catering receipts	122,500	Competition prizes	18,900
Sale of Equipment (cost €30,000)	7,000	Purchase of Equipment	47,000
National Lottery grant	120,000	Coaching expenses and wages	15,540
Hockey Ireland grant	13,500		
Bar receipts	73,600		
		Balance 31/12/2021	239,170
	795,350		795,350

You are given the following additional information and instructions:

(i) Bar stock (including catering stock €11,460) on 31/12/2021 was €21,700.

(ii) Bar debtors and bar creditors on 31/12/2021 were €780 and €1,100 respectively.

(iii) Provide for depreciation on equipment at 12.5% of cost. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

(iv) Clubhouse and Astroturf pitch are to be depreciated by 2% of cost.

(v) The club has decided that life membership is to be credited to income over a 10-year period which commenced in 2019.

(vi) The grant from the National Lottery was received on a once-off basis. It is to be treated as a capital item.
The grant from Hockey Ireland is received on an annual basis to support the day-to-day activities of the club. It is to be treated as a revenue item.

(vii) The wages due on 01/01/2021 were owed to the club coach for two weeks. Provide for three week's wages due on 31/12/2021 and include a bonus of €30 for each of the three weeks.

(viii) Subscriptions include:

1. Subscriptions for 2022 amounting to €3,160.
2. Levy for 2021 of €100 each on all 650 members.
3. Levy for 2020 of €100 each due from 30 members.

Required:

(a) Show the club's accumulated fund (capital) on 01/01/2021. (30)

(b) Show the income and expenditure account for the year ending 31/12/2021. (35)

(c) Show the club's balance sheet as at 31/12/2021. (25)

(d) (i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.

(ii) There is a proposal to reduce annual subscriptions by 10% for the next three years. As Treasurer of Abbey Hockey Club, what points would you make in favour of this proposal?

(10)

(100 Marks)

SECTION 3 (80 marks)
Answer any **ONE** question

8. Job Costing

Hayes Ltd, trades as a manufacturing firm, and has four departments: Production 1 Production 2, Service A and Service B.

The following costs relate to 2022.

	Total	Production 1	Production 2	Service A	Service B
	€	€	€	€	€
Indirect materials	420,000	200,000	120,000	50,000	50,000
Indirect labour	625,000	300,000	250,000	45,000	30,000
Factory canteen	50,000				
Rent and rates	64,000				
Light and heat	75,000				
Machine maintenance	28,000				
Plant depreciation	81,000				

The following information relates to the four departments

	Total	Production 1	Production 2	Service A	Service B
Floor area in square metres	40,000	20,000	16,000	2,000	2,000
Volume in cubic metres	48,000	24,000	16,000	6,000	2,000
Book value of plant (€)	264,000	110,000	88,000	33,000	33,000
Number of employees	120	60	42	15	3
Machine hours	84,000	48,000	36,000	------	------
Labour Hours	116,000	42,000	74,000	------	------

Service department costs are to be transferred to production departments on the following percentage basis:

	Production 1	Production 2
Service A	60%	40%
Service B	35%	65%

Job No. 310 has just been completed, the details are:

	Direct Materials	Direct Labour	Machine Hours	Labour Hours
	€	€		
Production 1	12,000	2,600	55	36
Production 2	2,600	7,000	20	80

The company budgets for a profit margin of 25%.

Required:

(a) Calculate the overhead to be absorbed by each department stating clearly the basis of apportionment used.

(b) Transfer the service department costs to production departments 1 and 2.

(c) Calculate a suitable overhead absorption rate for each department.

(d) Calculate the selling price for Job No. 310.

(e) (i) Explain why overhead absorption rates are based on budgeted costs rather than actual costs.

(ii) Explain, under - absorption of overheads, and how it might arise in a manufacturing firm.

(80 marks)

9. Budgeting

Harrington Ltd has recently completed its annual sales forecast for the year ended 31/12/2023.
It expects to sell two products – Golden at €360 and Portland at €410.
All stocks are to be decreased by 10% from their opening levels by 31/12/2023 and are valued using the FIFO method.

	Golden	**Portland**
Sales are expected to be:	15,200 units	8,400 units

Stocks of finished goods on 01/01/2023 are expected to be:

Golden	900 units at €210 each
Portland	750 units at €290 each

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Golden	**Portland**
Material A	6 Kgs	8 Kgs
Material B	9 Kgs	12 Kgs
Skilled Labour	6 Hours	9 Hours

Stock of raw materials on 01/01/2023 are expected to be:

Material A	9,400 Kgs @ €5.00 per Kg
Material B	6,800 Kgs @ €6.50 per Kg

The expected prices for raw materials during 2023 are:

Material A	€5.50 per Kg
Material B	€7.00 per Kg

The skilled labour rate is expected to be €18.00 per hour.
Production overhead costs are expected to be:

Variable	€12.00	per skilled labour hour
Fixed	€579,550	per annum

Required:

(a) Prepare a production budget (in units).

(b) Prepare a raw materials purchases budget (in kg and €).

(c) Prepare a production cost/manufacturing budget.

(d) Prepare a budgeted trading account. (You are required to calculate the unit cost of budgeted closing stock of both products).

(e) (i) Outline why budgetary control is necessary in an organisation.

(ii) In relation to budgets, explain what is meant by a favourable variance and give an example of how it might arise in the direct costs of a manufacturing firm.

(80 marks)

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