Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2011

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 20 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 carries 120 marks and the remaining three questions carry 60 marks each. Candidates should answer either **QUESTION 1 only** OR attempt 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 any **TWO** 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. However, 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** OR any **TWO** other questions

1. Company Final Accounts including a Manufacturing Account

Fisher Ltd, a manufacturing firm, has an Authorised Capital of €700,000 divided into 400,000 Ordinary Shares at €1 each and 300,000 4% Preference Shares at €1 each.
The following Trial Balance was extracted from its books at 31/12/2010:

	€	€
Factory Buildings (cost €550,000)	440,000	
Plant and Machinery (cost €240,000)	110,000	
Discount (Net)		2,000
Profit and Loss Balance 1/1/2010		36,400
Stocks on hand 1/1/2010		
Finished Goods	80,000	
Raw Materials	49,500	
Work in Progress	20,500	
Sales		1,100,000
Patents	100,000	
Carriage on raw materials	6,050	
Hire of special equipment	12,000	
Purchase of raw materials	440,500	
Dividends paid	30,000	
Sale of scrap material		6,000
Debtors and Creditors	54,600	45,700
Bank		8,600
Direct factory wages	201,450	
Selling expenses (including suspense)	108,000	
9% Debentures (including €30,000 issued on 1/4/2010)		80,000
Issued Share Capital – Ordinary Shares		250,000
– 4% Preference Shares		200,000
General factory overheads	50,400	
VAT	4,200	
Debenture interest paid for the first 3 months	1,000	
Administration expenses	20,500	
	1,728,700	1,728,700

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

(i) Stocks on hand at 31/12/2010: Finished goods €85,000; Raw materials €53,000; Work in progress €25,500
The figure for finished goods includes items which cost €6,000 to produce, but now have a sales value of €4,000.

(ii) Patents are being written off over 10 years which commenced in 2008.

(iii) Included in the figure for sales is €4,000 received for the sale of old machinery. This machinery had cost €24,000 on 1/10/2005 and was sold on 30/6/2010. The cheque had been entered in the bank account. This was the only entry made in the books.

(iv) The suspense figure arises as a result of discount received €300 entered only in the creditors account and of the posting of an incorrect figure for the debenture interest paid to the interest account. The correct interest was entered in the bank account.

(v) A bad debt of €450 should be written off and a provision for bad debts should be provided at 5% of debtors.

(vi) It was discovered that goods, which cost the firm €5,400 to produce, were sent to a customer on a sale or return basis. In error these goods were charged to the customer at cost plus 25%.

(vii) An invoice has been received for raw materials costing €15,000 which were in transit on 31/12/2010. No record has been made in the books.

(viii) Depreciation is provided on fixed assets as follows:
Factory Buildings at 2% of cost.
Plant and Machinery at 20% of cost per annum from date of purchase to date of sale.
At the end of 2010 the company revalued the buildings at €650,000.

(ix) The Directors are proposing that:
1. Provision should be made for debenture interest due.
2. Corporation tax of €24,000 be provided for.

You are required to prepare a:

(a) Manufacturing, Trading and Profit and Loss Account for the year ended 31/12/2010. (75)

(b) Balance Sheet as at 31/12/2010. (45)

(120 marks)

2. Debtors Control Account

The Debtors Ledger Control Account of S. O'Leary showed the following balances: €32,500 dr and €600 cr on 31/12/2010. These figures did not agree with the Schedule (List) of Debtors Balances extracted on the same date. An examination of the books revealed the following:

(i) Discount disallowed to a customer of €60 had been recorded as discount allowed in the general ledger and credited as €16 in the customer's account.

(ii) Interest amounting to €140, had been entered correctly in the interest account, but credited as €40 in the customer's account. Following a complaint by the customer this was reduced by €20. This reduction had not been entered in the books.

(iii) Cash sales €1,200 and credit sales €710 had both been entered by O'Leary on the credit side of a customer's account.

(iv) A credit note was sent to a customer for €45 after a restocking charge of €20 was applied. The only entry made was €35 in the returns book. After a complaint was made by the customer, the restocking charge was cancelled.

(v) An invoice sent by O'Leary to a customer for €1,450 had been entered in the appropriate day book as €1,540. When posting from this book to the ledger no entry had been made in the customer's account.

(vi) €140 was received from a debtor for a debt previously written off. This represents 70% of the original bad debt. The debtor has undertaken to pay the remainder of the debt and now wishes to trade again with O'Leary. No entries were made in the accounts.

Required:

(a) Prepare the Adjusted Debtors Ledger Control Account. (22)

(b) Prepare the Adjusted Schedule (List) of Debtors showing the original balance. (30)

(c) (i) Which books of first entry are used in the production of Debtors Control Accounts?
(ii) Explain the importance of Control Accounts. (8)

(60 marks)

3. Published Accounts

Marx plc has an authorised share capital of €800,000 divided into 600,000 ordinary shares at €1 each and 200,000 5% preference shares at €1 each. The following trial balance was extracted from its books at 31/12/2010:

	€	€
Buildings at cost	700,000	
Buildings – Accumulated Depreciation on 1/1/2010		91,000
Vehicles at cost	220,000	
Vehicles – Accumulated Depreciation on 1/1/2010		8,000
Quoted Investments at cost (market value €160,000)	300,000	
Unquoted Investments at cost (director's value €50,000)	80,000	
Debtors and Creditors	295,000	199,000
Stock 1/1/2010	72,000	
Patent 1/1/2010	70,000	
Administrative expenses	240,000	
Distribution costs	250,000	
Purchases and Sales	1,150,000	1,880,000
Rental Income		60,000
Profit on sale of land		55,000
Dividends paid	23,000	
Bank	78,000	
VAT		60,000
6% Debentures 2015/2016		400,000
Profit &Loss Account at 1/1/2010		40,000
Investment income received – quoted		5,000
unquoted		1,000
Issued Capital		
Ordinary Shares		450,000
5% Preference Shares		200,000
Provision for Bad Debts		25,000
Debenture Interest paid	6,000	
Discount		10,000
	3,484,000	3,484,000

The following information is relevant:

(i) Stock on 31/12/2010 is €80,000.
(ii) During the year, land adjacent to the company's premises, which had cost €120,000, was sold for €175,000. At the end of the year the company revalued its buildings at €850,000. The company wishes to incorporate this value in this years accounts.
(iii) Provide for debenture interest due, auditors' fees €10,000, directors' fees €60,000 and corporation tax €80,000.
(iv) Included in administrative expenses is the receipt of €10,000 for patent royalties.
(v) Depreciation is to be provided for on buildings at a rate of 2% straight line and is to be allocated 30% to distribution costs and 70% to administrative expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at a rate of 20% of cost.
(vi) The patent was acquired on 1/1/2007 for €100,000. It is being amortised over 10 years in equal instalments. The amortisation is to be included in cost of sales.

You are required to:

(a) Prepare the Published Profit and Loss account for the year 31/12/2010, 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. Financial fixed assets
4. Dividends
5. Tangible fixed assets. (48)

(b) (i) State how a company should deal with a Contingent Liability which is probable.
(ii) Explain the difference between an auditor's qualified and unqualified report. (12)

(60 marks)

Q 4 Incomplete Records

On 1/1/2010 R. O'Hagan lodged €480,000 to a business bank account and on the same day purchased a business for €420,000, consisting of the following tangible assets and liabilities: buildings €400,000, stock €14,200, three months rates prepaid €1,800, debtors €24,400, wages due €2,900 and trade creditors €49,000.

During 2010 O'Hagan did not keep a full set of books but was able to supply the following additional information on 31/12/2010:

(i) Each week O'Hagan took from stock, goods to the value of €160 and a cheque for €120 to pay household expenses.

(ii) On 1/10/2010 O'Hagan borrowed €360,000, part of which was used to purchase an adjoining premises costing €280,000. It was agreed that interest would be paid on the last day of each month at the rate of 4% per annum. The capital sum was to be repaid in one lump sum in the year 2017 and to provide for this the bank was instructed to transfer €4,800 on the last day of every month from O'Hagan's business account into an investment fund.

(iii) During the year, O'Hagan lodged receipts from cash register €120,000 and dividends €3,800 to the business bank account.

O'Hagan also made the following payments by cheque: light and heat €8,100, interest €2,400, wages and general expenses €86,000, equipment €11,000, rates for twelve months €8,400 and son's college fees €2,000.

(iv) O'Hagan estimated that 20% of the following: equipment, light and heat **used** and interest **payable** should be attributed to the private section of the premises.

(v) Included in the assets and liabilities of the firm on 31/12/2010 were stock €16,700, debtors €31,200, trade creditors €27,300, electricity due €620 and €36 interest earned by the investment fund to date.

Required:

(a) Prepare a Statement/Balance Sheet showing O'Hagan's profit or loss for the year ended 31/12/2010. **(Show your workings)**. (52)

(b) What advice would you give O'Hagan in relation to record keeping? (8)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Sully plc, a company involved in the construction industry for the year ended 31/12/2010. The company has an authorised capital of €700,000 made up of 600,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The company has already issued 550,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2010

	€
Sales	1,170,000
Costs of goods sold	(875,000)
Operating expenses for year	(230,000)
Interest	(19,200)
Net Profit for year	45,800
Dividends paid	(30,000)
Retained Profit	15,800
Profit and Loss Balance 1/1/2010	27,000
Profit and Loss Balance 31/12/2010	42,800

Ratios and information for year ended 31/12/2009

Earnings per Ordinary Share	10.5c
Dividend per Ordinary Share	5.6c
Interest Cover	5 times
Quick Ratio	0.70 to 1
Return on Capital Employed	8.1%
Market Value of one ordinary share	€0.95
Gearing	32%
Dividend Cover	1.9 times
Dividend Yield	5.9%

Balance Sheet as at 31/12/2010

	€	€
Fixed Assets		
Intangible	150,000	
Tangible	642,000	792,000
Investments (market value 31/12/2010 – €90,000)		150,800
		942,800
Current Assets (including Stock €80,400 and Debtors €45,000)	148,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(158,000)	(10,000)
		932,800
Financed by		
8% Debentures (2014 secured)		240,000
Capital and Reserves		
Ordinary Shares @ €1 each	550,000	
5% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	42,800	692,800
		932,800

Market value of one ordinary share at the end of 2010 was **€0.90**

Required

(a) Calculate the following for 2010:
- (i) The Opening Stock if the rate of stock turnover is 10 based on average stock
- (ii) The Gearing ratio
- (iii) The Earnings per Ordinary Share
- (iv) The Dividend Yield
- (v) How long it would take one ordinary share to recoup (recover) its 2010 market price based on present dividend payout rate? (50)

(b) Advise the bank manager if a loan of €400,000, on which an interest rate of 8% would be charged, should be granted to Sully plc for future expansion. Use relevant ratios, percentages and other information from above to support your answer. (40)

(c) Explain the limitations of ratio analysis. (10)

(100 marks)

6. Club Accounts

Included among the assets and liabilities of the Glen Tennis Club on 1/1/2010 were the following:

Clubhouse and courts €250,000, equipment (at cost) €75,000, bar stock €15,000, bar debtors €1,280, bar creditors €8,400, life membership €24,000, levy reserve fund €20,000, wages prepaid €400, subscriptions due €500.

The Club Treasurer has supplied the following account of the club's activities during the year ended 31/12/2010

Receipts and Payments Account of Glen Tennis Club for year ended 31/12/2010

Receipts	**€**	**Payments**	**€**
Bank current account	1,140	Bar purchases	38,500
Interest from 4% investments	1,500	Sundry expenses	24,000
Bar receipts	74,000	Repayment of €30,000 loan on	
Catering receipts	12,700	30/9/2010 with 15 months interest	33,960
Subscriptions	84,000	Equipment	8,000
Annual sponsorship	7,500	Catering costs	15,800
Sale of equipment (cost €4,000)	2,500	Prize Bonds	4,400
		Coaching lessons	3,500
		Travel expenses	10,000
		Balance at bank 31/12/2010	45,180
	183,340		183,340

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

(i) Bar stock on 31/12/2010 was €13,300.
(ii) Equipment owned on 31/12/2010 is to be depreciated at the rate of 25% of cost.
(iii) Clubhouse and courts to be depreciated by 2% of cost.
(iv) Bar debtors and bar creditors on 31/12/2010 were €300 and €8,600 respectively.
(v) Subscriptions include:
    Two life memberships, bringing total life membership to ten.
    Subscriptions for 2011 amounting to €300
    Levy for 2010 of €100 each on 200 members
    Levy of €100 on 8 members for 2009.
(vi) Investment interest due on 31/12/2010 was €500.
(vii) Life membership to be written off over a five year period commencing in 2010.

Required

(a) Show the Club's Accumulated Fund (Capital) on 1/1/2010. (30)

(b) Show the Income and Expenditure account for the year ended 31/12/2010. (35)

(c) Show the Club's Balance Sheet on 31/12/2010. (20)

(d) (i) State and explain **two** limitations of a Receipts and Payments Account.

(ii) The club is considering the installation of floodlights at a cost of €70,000.
What advice would you give to the Treasurer of the club? (15)

(100 marks)

7. Tabular Statement

The financial position of Moore Ltd on 1/1/2010 is shown in the following Balance Sheet:

Balance Sheet as at 1/1/2010

	Cost	Dep. to date	Net
Fixed Assets	**€**	**€**	**€**
Land & buildings	550,000	11,000	539,000
Vehicles	38,000	20,000	18,000
Equipment	10,000	1,000	9,000
	598,000	32,000	566,000
Current Assets			
Stock	80,000		
Debtors (less provision 5%)	76,000	156,000	
Less Creditors: amounts falling due within 1 year			
Creditors	65,000		
Bank	24,000		
Expenses due	2,500	91,500	
Net Current Assets			64,500
			630,500
Financed by			
Capital and Reserves			
Authorised - 700,000 Ordinary Shares @ €1 each			
Issued - 440,000 Ordinary Shares @ €1 each			440,000
Share premium			20,000
Profit and Loss balance			170,500
			630,500

The following transactions took place during 2010:

Jan. Moore Ltd decided to revalue land and buildings at €700,000 (which includes land valued at €90,000) on 1/1/2010.

Feb. Moore Ltd bought an adjoining business on 1/2/2010 which included buildings €200,000, equipment €30,000, debtors €8,000 and creditors €40,000. The purchase price was discharged by granting the seller 180,000 shares in Moore Ltd at a premium of 20 cent per share.

April Management decided that the provision for bad debts should be raised to 7% of debtors.

May A vehicle which cost €25,000 was traded in against a new vehicle costing €35,000. An allowance of €20,000 was made for the old vehicle. Depreciation to date on the old vehicle was €5,500.

June Received a bank statement on June 30 showing a credit transfer received of €4,500 to cover 9 months rent in advance from June 1 and a direct debit of €1,500 to cover advertising for the year ended 31/3/2010.

July A payment of €720 was received from J. Murphy, a debtor, whose debt had been previously written off and who wishes to trade with Moore Ltd again. This represents 80% of the original debt and the debtor had undertaken to pay the remainder of the debt by February 2011. On the same day goods to the value of €440 were sold on credit to Murphy.

Aug. Goods previously sold for €600 were returned. The selling price of these goods was cost plus 20%. A credit note was issued showing a deduction of 5% of the selling price as a restocking charge.

Sept. A creditor, who was owed €800 by Moore Ltd, accepted equipment, the book value of which was €700, in full settlement of the debt. The equipment cost €1,200.

Oct. Dividend of 5 cent per share was paid on all issued shares.

Nov. Received €100,000 from the issue of the remaining shares.

Dec. The buildings depreciation charge for the year is 3% of book value. The depreciation charge is to be calculated from the date of valuation and date of purchase. The total depreciation charge on vehicles for the year was €25,000.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant asset, liability and capital accounts and ascertain the total assets and liabilities on 31/12/2010.

(100 marks)

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

8. Marginal Costing

Ivor Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2010, during which 90,000 units were produced and sold, was as follows:

	€	€
Sales (90,000 units)		1,170,000
Materials	390,000	
Direct labour	236,000	
Factory overheads	82,000	
Selling expenses	105,000	
Administration expenses	130,000	(943,000)
Net profit		227,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% on sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold in 2011 if the company is to increase its net profit by 20% over the 2010 figure, assuming the selling price and cost levels and percentages remain unchanged.

(c) The profit the company would make in 2011 if it reduced its selling price to €11, increased fixed costs by €15,000 and thereby increased the number of units sold to 110,000, with all other cost levels and percentages remaining unchanged.

(d) The selling price the company must charge per unit in 2011, if fixed costs increase by 12% but the volume of sales and profit remains the same.

(e) The number of units that must be sold at €16 per unit to provide a profit of 10% of the sales revenue received from these same units.

(f) (i) List and explain **two** limitations/assumptions of marginal costing.

(ii) Explain what is meant by a step fixed cost.
Roughly sketch a graph of step fixed costs using the following rental payments:

Rent €	€5,000	€12,000	€19,000	€28,000
Output (units)	20,000	30,000	40,000	50,000

(80 marks)

9. Budgeting

O'Connor Ltd has recently completed its annual sales forecast to December 2012. It expects to sell two products – Light at €280 and Extra Light at €320.

All stocks are to be reduced by 10% from their opening levels by the end of 2012 and are valued using the FIFO method.

	Light	Extra Light
Sales are expected to be	12,000 units	3,500 units

Stocks of finished goods on 1/1/2012 are expected to be:

Light	650 units at €200 each
Extra Light	500 units at €220 each

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

	Light	Extra Light
Material A	8 kgs	6 kgs
Material B	9 kgs	7 kgs
Skilled labour	8 hours	9 hours

Stocks of raw materials on 1/1/2012 are expected to be:

Material A	6000 kgs @ €3.50 per kg
Material B	4000 kgs @ €5.00 per kg

The expected prices for raw materials during 2012 are:

Material A	€4.00 per kg
Material B	€5.50 per kg

The skilled labour rate is expected to be €12 per hour.

Production overhead costs are expected to be:

Variable	€4.50	per skilled labour hour
Fixed	€210,500	per annum

Required:

(a) Prepare a Production Budget (in units).

(b) Prepare a Raw Materials Purchases Budget (in units and €).

(c) Prepare a Production Cost/Manufacturing Budget.

(d) Calculate the unit cost of budgeted closing stock of both products.

(e) (i) Explain the term 'Master Budget'.
(ii) List the components of a Master Budget for a manufacturing firm.

(80 marks)

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