Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2024

Marking Scheme

Accounting

Note to teachers and students on the use of published marking schemes

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Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

Question 1A Final Accounts of a company

(a) Trading Profit and Loss Account of Yeats Ltd for the year ended 31/12/2023 [1]

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		€	€	€
Sales				1,080,700**[3]**
Less Cost of Sales				
Opening stock			44,400 **[3]**	
Purchases	N1		697,000 **[7]**	
Less closing stock	N2		(51,380) **[7]**	(690,020)
Gross Profit				390,680
Less Expenses				
Distribution Costs				
Discount		3,500 **[3]**		
Depreciation Delivery Vans	N3	24,890 **[4]**		
Advertising		25,145 **[3]**	53,535	
Administration Expenses				
Patents written off	N4	8,300 **[5]**		
Depreciation Buildings	N5	7,330 **[3]**		
Salaries & General Expenses	N6	218,155 **[7]**	233,785	287,320
				103,360
Add Operating Income				
Rent Received	N7		10,500 **[4]**	
Decrease in BDP	N8		432 **[4]**	
Profit on Disposal	N9		400 **[4]**	11,332
Operating Profit				114,692
Investment Income	N10			2,400 **[3]**
				117,092
Less Debenture	N11			(8,800) **[4]**
Net Profit				108,292
Less Dividends paid				(15,000) **[2]**
Retained profit				
Capital Reserve				(20,000) **[2]**
				73,292
P&L balance 01/01/2023				34,800 **[1]**
P&L balance 31/12/2023				108,092 **[5]**

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(b) Balance Sheet of Yeats Ltd as at 31/12/2023

	Cost	Acc Dep	NBV
Intangible Fixed Assets			
Patents N12			33,200 **[3]**
Tangible Fixed Assets			
Land & Buildings	700,000 **[1]**		700,000
Motor Vehicles N13 & N14	131,000 **[3]**	29,490 **[3]**	101,510
	831,000	29,490	801,510
Financial Assets			
3% Investments			120,000 **[2]**
			954,710
Current Assets			
Closing Stock		51,380 **[2]**	
Debtors N15	69,200 **[4]**		
Less Bad debts provision N16	(2,768) **[1]**	66,432	
Investment Income due N17		1,500 **[1]**	
VAT N18		11,600 **[3]**	
		130,912	
Creditors: amounts falling due within 1 year			
Creditors N19	60,900 **[4]**		
Bank	57,000 **[2]**		
Debenture Interest due N20	2,800 **[2]**		
Rent Receivable prepaid N21	3,000 **[1]**	123,700	7,212
			961,922
Financed By			
Creditors: amounts falling due after 1 year			
8% Debentures			140,000 **[2]**
Share Capital	**Authorised**	**Issued**	
Ordinary shares @ €1 each	1,000,000 **[1]**	400,000 **[1]**	
4% Preference shares @ €1 each	600,000 **[1]**	100,000 **[1]**	
	1,600,000	500,000	
Revaluation Reserve N22		178,830 **[3]**	
Capital reserve		35,000 **[1]**	
Profit & Loss balance		108,092 **[1]**	821,922
Capital Employed			961,922 **[2]***

Both totals correct *

N1 Purchases	747,000 - 46,000 - 4,000	697,000
N2 Closing stock	56,900 - 1520 - 4000	51,380
N3 Depreciation Motor Vehicles	131,000 X .95/5	24,890
N4 Patents written off	40,600 + 900/5	8,300
N5 Depreciation buildings	580,000 - 13,500 - 200,000 x .02	7,330
N6 Salaries & General Expenses	218,355 + 400 -600	218,155
N7 Rent	13,500 - 3,000	10,500
N8 Provision for bad debts	3,200 -2,768	432
N9 Profit on sale	40,000 -30,400 -10,000	400
N10 Investment income	120,000 x .03 * 8/12	2,400
N11 Debenture interest	6,000 + 2,800 8,000 + 800	8,800
N12 Patents	41,500 - 8,300	33,200
N13 Motor Vehicles	115,000 + 56,000 - 40,000	131,000
N14 Motor Vehicles - AD	35,000 + 24,890 -30,400	29,490
N15 Debtors	69,600 - 400	69,200
N16 Provision for bad debts	69,200 x 4%	2,768
N17 Investment income due	2,400 - 900	1,500
N18 VAT	(1,900) +13,500	11,600
N19 Creditors	64,900 – 4,000	60,900
N20 Interest due	8,800 - 6,000	2,800
N21 Rent Receivable prepaid	13,500 - 10,500	3,000
N22 Revaluation Reserve	133,500 + 38,000 +7,330	178,830

Question 1B Final Accounts of a manufacturing company

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(a) Manufacturing account for Sexton Ltd for year ended 31/12/2023[1]

Opening stock raw materials			97,500 **[1]**
Purchases raw materials	N1		574,200 **[3]**
Carriage In			15,800 **[1]**
Closing stock raw materials			(33,400) **[1]**
Cost of raw materials consumed			654,100
Direct Costs			
Factory Wages			310,000 **[2]**
Prime Cost			964,100
Factory Overheads			
Patent Written Off	N2	16,000 **[3]**	
General Factory overhead	N3	115,900 **[6]**	
Depreciation Plant & Machinery	N4	112,500 **[4]**	
Loss on machine	N5	12,000 **[5]**	
Loss on damaged stock	N6	580 **[2]**	
Depreciation on factory building	N7	12,800 **[2]**	269,780
			1,233,880
Add Opening stock -Work In Progress		13,000**[2]**	
Less Closing stock -Work In Progress		(22,100) **[2]**	(9,100)
			1,224,780
Less Sale of Scrap	N8		(4,200) **[3]**
Cost of Manufacture			**1,220,580**

Trading Profit and loss account of Sexton Ltd for year ended 31/12/2023

Sales	N9		1,670,850 **[4]**
Less Cost of Sales			
Opening Stock		76,000 **[1]**	
Cost of Manufacture		1,220,580 **[2]**	
Closing Stock	N10	(89,000) **[3]**	(1,207,580)
Gross Profit			463,270
Less expenses			
Selling and Distribution Costs			
Discount	N11	800 **[2]**	
Selling expenses		99,000 **[2]**	
Increase in Bad Debt Provision	N12	1,533 **[2]**	
Administration Expenses			
Depreciation-Buildings	N7	3,200 **[2]**	
Administration Expenses		113,000 **[2]**	(217,533)
			245,737
Add Operating Income			
Rent	N13		3,000 **[3]**
Operating Profit			248,737
Investment Income	N14		1,875 **[3]**
Debenture Interest	N15		(16,000) **[3]**
Net Profit			**234,612**
Dividend Paid			(47,000) **[1]**
Retained Profit			**187,612**
Transfer to Reserve			(20,000) **[1]**
			167,612
Profit & Loss Balance 01/01/2023			6,300 **[1]**
Profit & Loss Balance 31/12/2023			**173,912 [5]**

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(b) Balance Sheet of Sexton Ltd as at 31/12/2023

Intangible Fixed Assets			
Patent N16			64,000 **[2]**
Tangible Fixed Assets	**Cost**	**Acc Dep**	**NBV**
Factory Land & Buildings	1,300,000 **[1]**		1,300,000
Plant and Machinery N17 & N18	740, 000 **[2]**	191,500 **[3]**	548,500
	2,040,000	191,500	1,848,500
Financial Assets			
3% Investments			150,000 **[2]**
			2,062,500
Current Assets			
Closing Stock Raw Materials	33,400 **[1]**		
Closing Stock Work In Progress	22,100 **[1]**		
Closing Stock Finished Goods	89,000 **[1]**	144,500	
Debtors N19	25,550 **[4]**		
Less Bad Debt Provision N12	(1,533) **[1]**	24,017	
Compensation due N20		5,220 **[1]**	
Investment Income due N21		375 **[1]**	
		174,112	
Less Current Liabilities			
Bank N22	3,800 **[4]**		
Creditors N23	58,000 **[4]**		
Rent Receivable prepaid N24	3,000 **[1]**		
VAT	10,100 **[1]**		
Debenture Interest due N25	3,800 **[2]**	78,700	95,412
			2,157,912**[2]**
Financed By			
Creditors amounts falling due > 1 year			
8% Debentures			200,000
	Authorised	**Issued**	
Ordinary Share Capital	1,100,000 **[1]**	900,000 **[1]**	
Preference Share Capital	400,000 **[1]**	330,000 **[1]**	
	1,500,000	1,230,000	
Revaluation Reserve N26		504,000 **[3]**	
Capital Reserve		50,000 **[1]**	
Profit & Loss Balance 31/12/2023		173,912 **[1]**	1,957,912
			2,157,912**[2]***

Both totals correct *

N1.	Purchases of Raw Materials	580,000 - 5,800	574,200
N2.	Patent	80,000/5	16,000
N3.	General factory overheads	110,700 + 6,000 - 800	115,900
N4.	Depreciation on machinery	29,250 + 29,250 OR 111,000 + 1,500	112,500
N5.	Loss on Machine	40,000 -7,000 -21,000	12,000
N6.	Loss on damaged stock	5,800 - 5,220	580
N7.	Depreciation buildings	2% x 800,000 = 16,000	12,800 3,200
N8.	Sale of scrap	11,200 - 7,000	4,200
N9.	Sales	1,692,100 - 21,250	1,670,850
N10.	Closing stock - FG	72,000 + 17,000	89,000
N11.	Discount		800
N12.	Bad debts provision	25,550 x 6%	1,533
N13.	Rent	6000 x 2/4	3,000
N14.	Investment income	150,0000 x 3% x 5/12	1,875
N15.	Debenture interest	200,000 x 8%	16,000
N16.	Patent	80,000 - 16,000	64,000
N17.	Machinery - cost	780,000 - 40,000	740,000
N18.	Machinery – Acc Depreciation	100,000 + 112,500 - 21,000	191,500
N19.	Debtors	45,000 - 21,250 + 1,800	25,550
N20.	Compensation due	5,800 x 90%	5,220
N21.	Investment income due	1,875 - 1,500	375
N22.	Bank Overdraft	8,000 + 1,800 - 6,000 OR 600 + 3,200	3,800 3,800
N23.	Creditors	52,000 + 6,000	58,000
N24.	Rent Receivable prepaid	6,000 - 3,000	3,000
N25.	Interest due	16,000 - 12,200	3,800
N26.	Revaluation Buildings	400,000 + 88,000 + 16,000	504,000

Question 2 Published Accounts

Published Profit & Loss A/C of Lyne Plc for year ended 31/12/23

Turnover	2,150,000 **[2]**
Cost of Sales	1,479,500 **[4]**
Gross Profit	670,500
Distribution Costs	330,400 **[5]**
Administrative expenses	199,250 **[4]**
	140,850
Other operating Income	101,650 **[3]**
Operating Profit	242,500
Profit on sale of land	60,000 **[1]**
Investment Income	4,200 **[3]**
	306,700
Debenture Interest	30,400 **[3]**
Profit on ordinary activities before tax **[1]**	276,300
Corporation Tax	87,000 **[2]**
Profit on ordinary activities after tax	189,300
Dividend paid	35,000 **[2]**
Retained earnings	154,300
P&L Balance 01/01/23	43,000 **[2]**
P&L Balance 31/12/23	197,300 **[3]**

Penalties are applied where entries are in incorrect sequence

1.	Cost of Sales:	57,000 + 1,500,000 + 7,500 - 85,000	1,479,500
2.	Distribution Costs:	232,000 + 4,500 + 2,650 + 88,000 + 3,250	330,400
3.	Administration Expenses:	146,000 + 35,000 + 8,500 + 9,750	199,250
4.	Other Operating Income:	85,000 +14,000 + 2,650	101,650
5.	Investment Income:	140,000 x 3%	4,200
6	Debenture Interest	380,000 x 8%	30,400
	Note: Depreciation – Buildings Distribution: Administration:	2% of 650,000 = 13,000 25% of 13,000 75% of 13,000	 3,250 9,750

Notes to the Accounts

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1 **Accounting Policy Notes [4]**

Tangible Fixed Assets

Buildings were re-valued at the end of 2023 and have been included in the accounts at their re-valued amount.

Vehicles are shown at cost.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings 2% per annum straight line

Vehicles 20% of cost per annum straight line

Stock is valued on a FIFO basis at the lower of cost and net realisable value

2 **Operating Profit [4]**

The operating profit is arrived at after charging

Depreciation on tangible fixed assets	101,000
Patent amortised	7,500
Director's remuneration	35,000
Auditors fees	8,500

3 **Dividends [2]**

Ordinary Dividends

Paid 5.8 cent per share 29,000

Preference Dividends

Paid 4.0 cent per share 6,000

4 **Tangible Fixed Assets [7]**

	Land & Buildings	**Vehicles**	**Total**
	€	€	€
Cost/Value at 01/01/2023	1,060,000	440,000	1,500,000
Disposal	(210,000)		(210,000)
Revaluation Surplus	100,000		100,000
Cost/Value at 31/12/2023	950,000	440,000	1,390,000
Acc Depreciation 01/01/2023	55,000	75,000	130,000
Depreciation charge for year	13,000	88,000	101,000
	68,000	163,000	231,000
Transfer on Revaluation	(68,000)	-	(68,000)
Acc.Depreciation 31/12/2023	-	163,000	163,000
Net book value 01/01/2023	1,005,000	365,000	1,370,000
Net book value 31/12/2023	950,000	277,000	1,227,000

(b)

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(i) An exceptional item is a material item of significant size. It is a profit or loss and must be shown separately in the profit and loss account because of its size. In Lyne Plc the profit on the sale of land of €60,000 is an example of an exceptional item.

(ii) Accountants must comply with the following regulations:

The Government – Legislation
The European Union – Directives
Accounting Standards Board-FRS's and SSAP's.
The Stock Exchange-Listing Rules

Question 3 Farm Acccounts **20**

(a) Statement of Capital 01/01/2023

Assets		
Land and Buildings	410,000 **[1]**	
Depreciation Land and Buildings	(12,600) **[1]**	397,400
Motor Vehicles	168,000**[1]**	
Depreciation Motor Vehicles	(50,400)**[1]**	117,600
Medicine prepaid		330 **[1]**
Value of cattle		88,000 **[1]**
Value of Sheep		35,600 **[1]**
Milk cheque due		6,900 **[1]**
Stock of fuel		370 **[1]**
Investment income due		400 **[1]**
Investments		120,000 **[2]**
Bank		51,500 **[1]**
		818,100
Liabilities		
ESB due	250 **[1]**	
Loan	30,000 **[2]**	
Loan Interest due	1,250 **[2]**	31,500
Capital as at 01/01/2023		786,600 **[2]**

(b) **20**

Enterprise Analysis Account Cattle and Milk

Income		
Milk		100,050 **[1]**
Cattle and Calves		25,700 **[1]**
Drawings		550 **[1]**
Increase in value of cattle		6,000 **[1]**
Single payment cattle		3,385 **[1]**
		135,685
Expenditure		
Dairy Wages	5,200 **[1]**	
Fertiliser	25,445 **[1]**	
General Farm expenses	15,127 **[1]**	
Cattle	11,200 **[1]**	
Vet fees and medicine	1,925 **[2]**	58,897
Gross Profit Cattle and Milk		76,788

Enterprise Analysis Account Sheep

Income		
Sheep and Lambs		24,100 **[1]**
Single payment sheep		6,600 **[1]**
Wool		800 **[1]**
Drawings		770 **[1]**
Increase in value of sheep		15,400 **[1]**
		47,670
Expenditure		
Fertiliser	10,905 **[1]**	
General Farm expenses	6,483 **[1]**	
Sheep	8,900 **[1]**	
Vet fees and medicine	825 **[1]**	27,113
Profit on Sheep		20,557

(c) General Profit and Loss account for year ended 31/12/23

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Gross Profit Cattle		76,788
Gross Profit Sheep		20,557
Investment Interest		2,400 **[1]**
EU Glas Scheme		5,600 **[1]**
		105,345
Less Expenses		
Light Heat and Fuel	41,868 **[4]**	
Repairs	5,175 **[1]**	
Depreciation Machinery	16,470 **[1]**	
Depreciation Buildings	3,780 **[1]**	
Interest	900 **[1]**	68,193
Net Profit		37,152 **[2]**

(d)

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I would recommend that Fleming install the Solar Panels
The light and heat bill would be reduced by €16,747/€18,608 per annum.
As a result profit would increase and the business would recover the investment of €100,000 in approximately 6 years.

The farm business can easily afford to finance the €100,000 as it has €32,605 in the bank and €120,000 in investments and has just repaid a loan of €30,000.

Depreciation Land and Buildings	410,000 -200,000 210,000 x .02 x 3	210,000 12,600
Depreciation Motor Vehicles	168,000 x .10 x 3	50,400
Investment Income	400/2 x 12	2,400
Investments	2,400/.02	120,000
Loan	32250/1.075	30,000
Loan Interest	32,250 - 30,000 2250 / 18 x 8 1,000*.90	2,250 1,000 900
Loan Interest due	2,250/18 x 10	1,250
Milk	100,000 - 6,900 + 6,950	100,050
Cattle and Calves	14,900 + 10,800	
Sheep and Lambs	15,400 + 8,700	24,100
Fertiliser	35,600 + 750 36,350 x .70 36,350 x .30	36,350 25,445 10,905
General Farm Expenses	21,610 x .70 21,610 x .30	15,127 6,483
Vet fees and medicines	4,120 + 330 - 1,700 2,750 x .70 2,750 x .30	2,750 1,925 825
Light Heat and Fuel	46,850 + 370 – 250 - 450 46,520 x.90	46,520 41,868
Repairs	5750 x .90	5,175
Depreciation Land and Buildings	210,000*.02*.90	3,780
Depreciation Motor Vehicle & Machinery	168,000 + 15,000 x.10 x .90	16,470

Question 4 Depreciation of Fixed Assets

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(a) **Truck Account**

01/01/2022 Balance b/d	**[1]** 219,000	01/09/2022 Disposal	**[1]** 79,000
01/09/2022 Bank	**[1]** 82,000	31/12/2022 Balance c/d	**[1]** 222,000
	301,000		301,000
01/01/2023 Balance b/d	222,000	01/04/2023 Disposal	**[1]** 72,000
01/04/2023 Bank	**[1]** 88,000	31/12/2023 Balance c/d	238,000
	310,000		310,000
01/01/2024 Balance b/d	238,000		

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(b) **Provision for Depreciation Account**

01/09/2022 Disposal	**[4]** 54,900	01/01/2022 Balance b/d	**[6]** 87,920
31/12/2022 Balance c/d	71,340	31/12/2022 Profit & Loss	**[8]** 38,320
	126,240		126,240
01/04/2023 Disposal	**[4]** 23,760	01/01/2023 Balance b/d	71,340
31/12/2023 Balance c/d	**[3]** 89,700	31/12/2023 Profit & Loss	**[7]** 42,120
	113,460		113,460
		01/01/2024 Balance b/d	89,700

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(c) **Disposal of Truck Account**

01/09/2022 Cost	**[1]** 79,000	01/09/2022 Trade In	**[2]** 20,000
		Provision for Depreciation	**[2]** 54,900
		31/12/2022 P&L	**[1]** 4,100
	79,000		79,000
01/04/2023 Cost	**[1]** 72,000	01/04/2023 Trade in	**[2]** 23,000
31/12/2023 Profit & Loss	**[1]** 760	Compensation	**[2]** 26,000
		Provision for Depreciation	**[2]** 23,760
	72,760		72,760

No	Cost	Annual Depreciation	2018	2019	2020	2021	2022	2023	Dep on Disposal
1	55,000	9,900	6,600	9,900	9,900	9,900	6,600		42,900
	24,000			1,600	4,800	4,000	1,600		12,000
2	68,000	12,240		9,180	12,240	12,240	12,240	12,240	
3	72,000	12,960				7,560	12,960	3,240	23,760
4	82,000	14,760					4,920	14,760	
5	88,000	15,840						11,880	
			6,600	20,680	26,940	33,700	38,320	42,120	

87,920

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(d)

(i)
Depreciation is charged so as to write off the cost/value of fixed assets over their estimated useful economic life. Depreciation is an expense in the Profit and Loss Account. Failure to include depreciation in the final accounts causes the profit to be overstated and the net worth to be overstated. The financial statements would not show a true and fair view of the business.

(ii)
Useful economic life is the expected period of time during which a fixed asset remains beneficial/useful to the business. It is essentially how long the fixed asset is expected to contribute to generating income before it becomes obsolete or is no longer cost-effective to use. When an asset depreciates to the point that it is no longer useful to the business, then it is said to be past its economic life. For example, a business purchases a Motor Vehicle which can be used for 5 years but has no scrap value at the end of the 5 years. The company will depreciate it by 20% a year over the 5 year period.

Question 5 Interpretation of Accounts **50**

(i) $\frac{605,000}{10}$ = 60,500 x 2 = 121,000

121,000 - 65,000 = 56,000 **(10)**

(ii) Return on Capital Employed = $\frac{\text{Operating Profit}}{\text{Capital Employed}}$ x 100

$\frac{110,000 + 12,000}{705,000}$ x 100 = 17.3% **(10)**

(iii) P/E ratio = $\frac{\text{Market Price}}{\text{EPS}}$

$\frac{125c}{27.1c}$ = 4.61 years **(10)**

EPS = $\frac{110,000 - 1,600}{400,000}$ = 27.1c

(iv) Gearing = $\frac{\text{Fixed Interest Debt}}{\text{Capital Employed}}$ x 100

$\frac{190,000}{705,000}$ x 100 = 26.95% **(10)**

As an alternative Debt to Equity is fully acceptable here and the student should arrive at an answer of 36.89% for full marks.

(v) Dividend Yield

$\frac{\text{DPS}}{\text{MP}}$ x 100

$\frac{4.6c}{125c}$ x 100 = 3.68% **(10)**

DPS = $\frac{20,000 - 1,600}{400,000}$ = 4.6cent

(b)

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The Bank manager would analyse the performance, state of affairs and prospects of the company under the following headings:

Purpose[**2**]
The bank manager would want to know the reason for the loan which is for upgrading the manufacturing equipmentof the company. This seems like a good reason for granting the loan as it will improve the efficiency of the business, lower cost per unit and increase long-term profitability.

Performance

Profitability [7]
- Kelly plc is a profitable company.
- The return on capital employed in 2023 is 17.3%.
- Profitability has improved compared to 2022 when the return was 15%.
- This is well above the return from risk-free investments of 0.25% - 3.75% and the cost of borrowing of 8%, and 9% on the new loan.
- This indicates efficient use of its resources this year.
- The earnings per share has increased from 15 cent in 2022 to 27.1 cent in 2023. This is a positive trend and would satisfy the bank manager.

Dividend Policy [4]

- In 2023 the dividend cover is 5.89 times. (16.98% of the profits are paid out to the ordinary shareholders).
- In 2022 the dividend cover was 2.5 times. (40% of the profits are paid out to the ordinary shareholders).This is an improving trend.
- Bank Manager would be happy that Kelly plc is retaining profits for expansion and future repayments of loans and interest.

State of Affairs

Liquidity [5]

- Acid test/Quick ratio in 2023 is 1.37:1.
- This means that for every €1 of short-term debt the firm has €1.37 in liquid assets to cover that debt.
- The Acid Test Ratio in 2022 was 1.20:1. This is an improving trend and the company is liquid.
- The ratio is above the ideal ratio of 1:1
- There should be no issue meeting interest repayments.

Gearing [9]

- Gearing ratio in 2023 is 26.95%(Debt to Capital Employed)/36.89%(Debt to Equity)
- The company is lowly geared as this is below 50%/100%(Debt to Equity).
- This means it is financed more by equity than debt and is not reliant on outside investors.
- Gearing in 2022 was 15%, the trend is dis-improving. Goodwin plc is becoming more reliant on debt but the company is still considerably lowly geared.
- If the new loan was granted gearing would increase to 43.1%(Debt to Capital Employed) or 75.73%(Debt to Equity). The company would still be lowly geared so there is no cause for concern.

- Interest cover in 2023 is 10.17 times.
- This indicates that the company has sufficient profits to pay interest payments.
- The interest cover in 2022 was 5 times, so this is an improving trend.
- With the new loan the interest cover would dis-improve to 4.06 times which is still a very healthy cover and would indicate that the interest payments on the new loan would be more than covered from profits.

Security [7]

- Debentures are €150,000 are secured against the fixed assets and and due for repayment in 2027.
- Tangible Fixed assets are valued at €480,000/€530,000/€630,000.
- There is sufficient security to cover the existing debentures**,** however the bank manager would like to question the depreciation policy of the business to ascertain the real value of the fixed assets.
- The existing Tangible Fixed Assets if valued correctly could also be used as security for the new loan (480,000 – 150,000 = 330,000) with €330,000(adequate security) available, this more than covers the new loan of €200,000.
- Kelly plc also has investments which cost €100,000 and are now worth €120,000. This would indicate good investment decisions by management.

Prospects

Sector [5]
The company operates in the renewable energy sector. Short term prospects are good as the renewable energy industry is a growing industry as more people become environmentally aware – households can receive grants for the installation of solar panels and no VAT is charged on the installation of these panels. Long term prospects are also encouraging as people try to move away from reliance on fossil fuels and from higher energy bills due to volatile economic conditions.

Conclusion: [1]

- The bank manager should grant the loan as the company is profitable, liquid and has low gearing.

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(c) (i)

The rate of Dividend is fixed for Preference shares. There is no fixed rate of dividend for ordinary shares.
Preference shareholders do not have any voting rights for taking crucial decisions related to the company. Ordinary shareholders have voting rights.
Preference shareholders have priority when it comes to being paid a dividend.
Ordinary Shareholders are paid a dividend if the company has enough profits to cover the payment.

(ii**)**

Purchasing €20,000 worth of Ordinary Shares in Kelly Plc would give an investor 16,000 ordinary shares in the company. On present DPS the investor would receive €736/3.68% of a dividend. Last year they would have received €960. This could increase or decrease in any given year. The value of the share could also increase or decrease.

Purchasing €20,000 worth of Preference shares would give a guaranteed dividend of €800/4%. However the investor has no say in how the company is run.

I would recommend for my friend to buy the preference shares if they would like a guaranteed return on their money but if they are prepared to take a risk, buying ordinary shares could give them a better return on their investment.

Question 6
(a)
(i)

20

Abridged Profit & Loss A/C for year ended 31/12/2023

Operating Profit	92,000	**[2]**
Investment Income	1,050	**[3]**
	93,050	
Debenture Interest	(9,200)	**[3]**
Profit before tax	83,850	
Taxation	(45,000)	**[3]**
Profit after tax	38,850	
Less Dividend paid	(25,000)	**[3]**
Retained earnings	13,850	
P&L Balance 1/1/23	74,550	**[3]**
P&L Balance 31/12/23	88,400	**[3]**

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Reconciliation of operating profit to net cash flow from operating activities

Operating Profit	92,000	**[2]**
Add Depreciation	48,000	**[3]**
Loss on Sale of Fixed Asset	500	**[2]**
Patent Written Off	13,000	**[2]**
Increase in stock	(10,300)	**[2]**
Increase in Debtors	(2,000)	**[2]**
Increase in BDP	60	**[2]**
Increase in Creditors	14,000	**[2]**
Net Cash Inflow from Operating Activities	155,260	**[2]**

(ii) **Cash flow statement of Simpson plc for the year ended 31/12/2023** **46**

	€	€
Operating Activities [1]		
Net Cash Inflow from operating activities		155,260**[2]**
Return on Investments and Servicing of Finance [1]		
Investment Income Received	550**[4]**	
Debenture Interest Paid	(7,800)**[4]**	(7250)
Taxation[1]		
Tax Paid		(43,200) **[4]**
Capital Expenditure and Financial Investments [1]		
Receipts from sale of Fixed Assets	8,500 **[2]**	
Payments to acquire Fixed Assets	(150,000) **[5]**	(141,500)
Equity Dividends Paid[**1]**		
Dividends paid		(25,000) **[2]**
Net Cash Outflow before Liquid Resources and Financing[1]		**(61,690) [1]**
Management of Liquid Resources [1]		
Purchase of Government securities		(8,000) **[2]**
Financing [1]		
Issue of Debentures	10,000 **[3]**	
Receipts from Issue of Ordinary Shares	50,000 **[3]**	
Share Premium	15,000 **[3]**	
`		75,000
Increase in Cash		**5,310 [3]**

5

Reconciliation of Net Cash to Movement in Net Debt		€
Increase in Cash		5,310 **[1]**
Cash used to Purchase Government Securities	8,000 **[1]**	
Purchase of Debentures	(10,000) **[1]**	(2,000)
Change in Net Debt		3,310
Net Debt 1/1/2023		(110,630) **[1]**
Net Debt 31/12/2023		(107,320) **[1]**

-

(b) **10**

(i) Profit shows the financial performance of a business but cash flow highlights a firm's ability to pay its bills etc.

A cashflow statement is beneficial for a business for the following reasons:

- It helps a business to manage its cash flow/liquidity better.
- It can help with financial planning/decision-making for the future.
- It shows profit is not always equal to cash.
- It ensures that the business complies with Company Law.
- It can be used as part of a loan application strategy.
- It shows all the cash inflows and outflows for the period.

(ii) Simpsons plc's Profit and Loss A/C and Cash Flow Statement show an operating profit of €92,000 was made but the increase in cash for the year was only €5,310.

<u>Profit but Not Cash:</u>

Credit Sales affects profit but not cash. Debtors increased by €2,000.

Credit purchases affects profit but not cash. Creditors increased by €14,000.

Loss on Sale of Fixed Asset affects profit but not cash. There is a loss on sale of €500.

Depreciation on Fixed Assets affects profit but does not affect cash. Depreciation of €48,000.

Patents amortised affects profit but does not affect cash. Patents amortised of €13,000.

Increase in bad debt provision affects profit but has no effect on cash. There is an increase in the bad debts provision of €60.

<u>Cash but not Profit:</u>

Receipts from sale of Fixed Assets affects cash but has no immediate effect on profit. €8,500 was received from the sale of fixed assets.

Payments for the purchases of fixed assets affects cash but has no immediate effect on profit. New fixed assets were bought for €150,000.

Receipts from Issue of Shares and Premium affects cash but has no immediate effect on profit. New shares were issued for €65,000.

Receipts from Issue of Debenture affects cash but has no immediate effect on profit. €10,000 was received from the issue of Debentures.

Purchase of government securities affects cash but has no immediate effect on profit. €8,000 was spent on government securities.

Question 7 Correction of errors.

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(a) General Journal

General Journal			
		Debit	Credit
(i)	Bank	900**[2]**	
	Debtors	225**[3]**	
	Bad debt recovered		1,125**[2]**
	Being the posting of a bad debt recovered which had been omitted from the accounts **[1]**		
(ii)	Sales	1,200**[2]**	
	Debtor		2,000**[2]**
	Suspense	800**[2]**	
	Cash/Bank	10,000**[2]**	
	Delivery Van		20,000**[2]**
	Provision for Depreciation	8,000**[2]**	
	P&L Loss	2,000**[2]**	
	Being correction of incorrect recording of delivery van sold for cash **[1]**		
(iii)	Advertising -P&L	900**[2]**	
	Advertising due - B/S		900**[2]**
	Rent Prepaid - B/S	1,200**[2]**	
	Rent - P&L		1,200**[2]**
	Being correction of error Advertising due and Rent prepaid not recorded in the books **[1]**		
(iv)	Equipment	4,920**[2]**	
	Debtors	920**[2]**	
	Sales		4,000**[2]**
	VAT		920**[2]**
	Suspense		920**[2]**
	Being the correction of incorrect entry of goods sold on credit in the books **[1]**		
(v)	Creditors	13,400**[2]**	
	Purchases Returns		5,600**[2]**
	Suspense		7,800**[2]**
	Being the correction of incorrect recording of purchases returns and a restocking charge **[1]**		

(b) Suspense Account

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Suspense Account

Original difference	7,920 **[2]**	Equipment/Debtors	920 **[2]**
Sales/Debtors	800 **[2]**	Creditors/Purchases	7,800 **[2]**
	8,720		8,720

The closing balance on the suspense account is always zero. This is because the suspense account is a temporary account which holds some errors which prevent the trial balance from balancing. Once these errors have been corrected through the suspense account, the account should be clear. **[2]**

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(c)

Statement of Corrected Net Profit		
Original Net Profit		53,100 **[1]**
Add		
Bad debt recovered	1,125 **[2]**	
Rent	1,200 **[1]**	
Sales	4,000 **[1]**	
Purchases returns	5,600 **[1]**	11,925
		65,025
Less		
Sales	1,200 **[1]**	
P&L Loss	2,000 **[2]**	
Advertising	900 **[1]**	4,100
Correct Net Profit		60,925 **[4]**

(d) **20**

Balance Sheet as at 31/12/2023

	€	€	€
	Cost	Dep	NBV
Fixed Assets			
Premises	450,000		450,000
Delivery Vans	40,000 **[2]**	22,000 **[2]**	18,000
Equipment	31,920 **[2]**	-----	31,920
	521,920	22,000	499,920
Current Assets			
Stock		47,100	
Debtors(+225 - 2,000 +920)		11,745 **[3]**	
Cash (+10,000)		20,100 **[1]**	
Rent Prepaid		1,200 **[1]**	
		80,145	
Creditors: amounts falling due within 1 year			
Creditors (-13,400 +7,920)	53,320 **[2]**		
Bank (-900)	15,200 **[1]**		
VAT (+920)	8,620 **[1]**		
Advertising due	900 **[1]**	(78,040)	2,105
			502,025
Financed by			
Capital		455,000 **[1]**	
Correct Net Profit		60,925	
		515,925	
Less Drawings		(13,900)	502,025
			502,025**[3]***

Both totals correct *

(e) **6**

An error of principle arises when an item is posted to the correct side of the incorrect class of account. For example an electrical wholesaler purchased a Motor Vehicle to be used for delivering goods bought online, but includes the van in the Purchases account rather than the Motor Vehicles account.

Question 8

48

(a) Flexible Budgets

(i) **Production Overheads**

	Units	€
High	38,000	191,000
Low	20,000	110,000
Diff	18,000	81,000

Variable Cost:

81,000 / 18,000 = €4.50 per unit **[6]**

Fixed Cost:

@ 38,000 units 191,000 – (38,000 x 4.50) = €20,000**[5]**
@20,000 units 110,000 – (20,000 x 4.50) = €20,000

(ii) **Other Overheads**

	Units	€
High	38,000	311,400
Low	20,000	171,000
Diff	18,000	140,400

Variable Cost:

140,400 / 18,000 = €7.80 per unit **[6]**

Fixed Cost:

@ 38,000 units 311,400 – (38,000 x 7.80) = €15,000 **[5]**
@20,000 units 171,000 – (20,000 x 7.80) = €15,000

(iii) **Flexible Budget at 85% Activity Level**

	€	€	
Sales (34,000 units)		1,496,000 **[1]**	€44 p.u.
Less Variable Costs:			
Materials (34,000 x 4.50)	153,000 **[1]**		
Labour (34,000 x 15)	510,000 **[1]**		
Production Overheads (34,000 x 4.50)	153,000 **[1]**		
Other Overheads (34,000 x 7.80)	265,200 **[1]**	(1,081,200)	€31.80p.u.
Contribution		414,800 **[3]**	€12.20p.u.
Less Fixed Costs			
Production Overheads	20,000 **[1]**		
Other Overheads	15,000 **[1]**		
Administration	80,600 **[1]**	(115,600)	
Profit		299,200**[2]**	

Workings:

1,081,200 + 115,600 = 1,196,800= 80%

1,196,800/ 80 x 100 = 1,496,000

(iv) Break Even Point = $\frac{115,600}{12.20}$ = 9,476 units **[5]**

Margin of safety = 34,000 - 9,476 = 24,524 units **[4]**

(v) Controllable costs are costs that can be overseen by the manager of the cost centre. The manager will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. e.g. all variable costs are controllable. Commission to sales personnel can be controlled by the sales manager. **[4]**

(b) **(i) Stock Valuation**

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Purchases

Units	Price	Cost
	€	€
6,500	9	58,500
3,700	9.50	35,150
2,600	9.75	25,350
1,200	10	12,000
14,000		131,000

Sales

Units	Price	Revenue	Units	Price	Revenue	Total Revenue
Credit sales			Cash Sales			
	€	€		€	€	€
1,900	12	22,800	200	11	2,200	25,000
1,700	13	22,100	1,900	12	22,800	44,900
2,900	14	40,600	2,800	13	36,400	77,000
700	15	10,500	1,600	14	22,400	32,900
7,200		96,000	6,500		83,800	179,800

Closing stock in units

Opening Stock	5,000 **[1]**
Purchases	14,000 **[1]**
Credit Sales	(7,200) **[1]**
Cash Sales	(6,500) **[1]**
Closing Stock	5,300**[1]**

Value of Closing Stock:	**€**
1,200 @ 10	12,000 **[2]**
2,600 @ 9.75	25,350 **[2]**
1,500 @ 9.50	14,250 **[2]**
5,300	**51,600 [2]**

(b) (ii) Trading Account for Touhy Ltd for year ended 31/12/2023

	€	€
Sales		179,800 **[3]**
Less Cost of Sales		
Opening Stock	40,000 **[2]**	
Purchases	131,000 **[3]**	
Closing Stock	(51,600) **[2]**	(119,400)
Gross Profit		60,400**[3]**

(iii)

FIFO(First in First Out) is a common stock valuation method used in cost accounting. Under the FIFO method, the earliest purchased or produced goods are sold/used first. By selling your oldest stock first, its price or value is represented as the most accurate estimate of each stock item.
Alternative method –

- LIFO
- Average Cost
- Weighted Average
- Standard Cost **[6]**

Question 9 Budgeting

(a) Production Budget

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	July	**Aug**	**Sept**	**Oct**	**Nov**
Sales Units	12,500 **[1]**	12,700 **[1]**	13,800 **[1]**	14,900 **[1]**	14,500
Opening Stock	-	(5,080) **[1]**	(5,520) **[1]**	(5,960) **[1]**	(5,800)
Closing Stock	5,080**[1]**	5,520 **[1]**	5,960 **[1]**	5,800 **[1]**	6,160
Production Units	17,580	13,140	14,240	14,740	14,860

(b) Raw Material Purchases Budget

13

	July	**Aug**	**Sept**	**Oct**	**Nov**
Production Units	17,580 [**1**]	13,140	14,240	14,740	14,860
Materials per unit	X 5 **[1]**	X 5	X 5	X 5	X 5
Production Requirements	87,900[**1**]	65,700	71,200	73,700	74,300
Opening Stock	-	(6,570) **[1]**	(7,120) **[1]**	(7,370) **[1]**	
Closing Stock	6,570 **[1]**	7,120 **[1]**	7,370 **[1]**	7,430 **[1]**	
Purchase Units	94,470**[1]**	66,250	71,450	73,760	
Purchase Price per unit	X €4 **[1]**	X €4	X €4	X €4	
Purchases in €	377,880	265,000	285,800	295,040 **[1]**	

(c) Cash Budget **34**

	July	August	September	October
Receipts	€	€	€	€
Cash Sales	178,125 **[1]**	180,975 **[1]**	196,650 **[1]**	212,325 **[1]**
Credit Sales		437,500 **[1]**	444,500 **[1]**	483,000 **[1]**
Total Receipts	178,125	618,475	641,150	695,325
Payments				
Purchases			377,880 **[1]**	265,000 **[1]**
Wages	86,500 **[1]**	87,500 **[1]**	93,000 **[1]**	98,500 **[1]**
Variable Overheads	263,700 **[1]**	197,100 **[1]**	213,600 **[1]**	221,100 **[1]**
Fixed Overheads	13,750 **[1]**	13,750	13,750	13,750
Equipment	60,000 **[1]**			
Loan Instalment		1,000 **[1]**	1,000 **[1]**	1,000 **[1]**
Loan Interest	240 **[1]**	235 **[1]**	230 **[1]**	225 **[1]**
Total Payments	424,190	299,585	699,460	599,575
Net Cash	(246,065) **[1]**	318,890 **[1]**	(58,310) **[1]**	95,750 **[1]**
Bank Loan	48,000 **[1]**			
Opening Cash		(198,065)	120,825	62,515
Closing Cash	(198,065)	120,825	62,515	158,265 **[3]**

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(d) Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2024

Sales		2,695,000 **[1]**
Less Cost of sales		
Purchases	1,223,720 **[1]**	
Less Closing Stock:		
RM:(7,430 x 4)	(29,720) **[1]**	
FG: (5,800 x 30)	(174,000) **[1]**	(1,020,000)
Gross Profit		1,675,000
Less Expenses:		
Variable Overheads	895,500 **[1]**	
Fixed Overheads	55,000 **[1]**	
Wages	365,500 **[1]**	
Depreciation	5,000 **[1]**	
Discount	40,425 **[1]**	(1,361,425)
Operating Profit		313,575
Interest		(930) **[1]**
Net Profit		**312,645 [2]**

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(e)

Variance analysis is a technique used in cost and management accounting to compare the actual results achieved with the budgeted figures. It's a quantitative method that helps to maintain control over a business.

A favourable variance arises when actual expenses are less than budgeted expenses or actual revenue is above the budgeted revenue figure. For example O'Neill may negotiate a better deal from suppliers and purchase the raw materials for less than €4. O'Neill may end up paying his employees a commission of less than 10% sales revenue per month.

Annotation	Use
$\checkmark_n$	Correct element (n marks).
$\boxed{0}$	No marks awarded. Answer incorrect or insufficient.
$\boxed{N}$	Refer to notes/workings.
	Page seen by examiner / Information not valid.
[	Surplus answer or part of answer. Marks awarded elsewhere.
$\boxed{P-}$	Minus one mark - Penalty, Incorrect calculation, misplaced figure, non-transfer,incorrect transfer or repeated work.
$\boxed{\checkmark\frac{1}{2}}$	Half marks awarded - Non transfer.
	Underline.