Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2015

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 15 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. 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

Melba Ltd, has an Authorised Capital of €1,500,000 divided into 1,100,000 Ordinary Shares at €1 each and 400,000 4% Preference Shares at €1 each. The following Trial Balance was extracted from its books at 31/12/2014:

	€	€
Buildings at cost	713,000	
Delivery vans (cost €250,000)	170,000	
Discount (Net)		12,200
Profit and loss balance 01/01/2014	62,200	
Stocks on hand 01/01/2014	74,500	
Debenture interest for the first six months	16,200	
3% Investments 01/01/2014	350,000	
Patents (incorporating 4 months investment income)	21,500	
Purchases and sales	1,120,000	1,495,000
Dividends paid	25,000	
Bad debts provision		4,000
Debtors and creditors	99,200	81,100
Bank		50,000
Salaries and general expenses (including suspense)	231,100	
8% Debentures		400,000
Issued share capital – ordinary shares		500,000
– 4% preference shares		300,000
VAT		5,000
Advertising	9,600	
Capital reserve		45,000
	2,892,300	2,892,300

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

(i) Stocks at 31/12/2014 at cost were €80,400 – this figure includes damaged stock which cost €6,600 but which now has a net realisable value of €3,200.
(ii) Patents, incorporating 4 months investment income, are to be written off over a 5 year period commencing in 2014.
(iii) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct entry had been made in the bank account) and discount allowed €400 entered only in the discount account.
(iv) During the year, stock which had cost €6,000 was destroyed by fire. The insurance company agreed to pay compensation of €5,000.
(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 31/03/2014 a delivery van which had cost €30,000 on 31/03/2011 was traded in against a new van which cost €56,000. An allowance of €8,000 was given on the old van. The cheque for the net amount of this transaction was entered 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 this transaction.
(vi) A new warehouse was purchased during the year for €100,000 plus VAT 13%. The amount paid to the vendor was entered in the buildings account. No entry was made in the VAT account.
(vii) The figure for bank in the Trial Balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2014 has arrived showing an overdraft of €46,690. A comparison of the bank account and the bank statement has revealed the following discrepancies:
   1. Two months investment income had been paid directly into the bank.
   2. A payment from a liquidator was received directly into the bank. This represented a first and final payment of 25c in the euro in respect of a debt of €4,000.
   3. A cheque issued to an advertising firm for €560 had not been presented for payment by 31/12/2014.
(viii) The Directors recommend that:
   1. Provision be made for both Investment Income and Debenture Interest due.
   2. Provision for bad debts to be adjusted to 4% of debtors.
   3. Buildings to be depreciated by 2% of cost.
   4. The managing director should be paid a bonus commission of 3% on all sales in excess of €900,000 and a further 5% in excess of all sales above €1,200,000.

Required:
(a) Prepare a Trading and Profit and Loss Account for the year ended 31/12/2014. (75)
(b) Prepare a Balance Sheet as at 31/12/2014. (45)
(120 marks)

2. Depreciation of Fixed Assets

Euro Ltd, a sportswear manufacturer, prepares its final accounts to 31 December each year. The company's policy is to depreciate its machinery on a straight line basis over 10 years. Scrap value is estimated at 5% of the original cost of the machine. Depreciation is charged from the date of purchase to the date of sale.
(Calculations should be to the nearest euro.)

On 01/01/2013, Euro Ltd owned the following machines:

No. 1 purchased on 01/07/2010 for €50,000
No. 2 purchased on 01/09/2011 for €65,000
No. 3 purchased on 01/01/2012 for €75,000

On 01/03/2013, Machine No. 1 was ruined by a malfunction which completely destroyed the motor sensor. The insurance company paid out €25,000 in respect of this damage and €500 was received from the sale of the machine to a scrap dealer. On the same date a new Machine, No. 4, was purchased to replace Machine No. 1 at a cost of €60,000.

Machine No. 3 had modifications carried out on its motor to increase productivity on 01/01/2014 costing €4,000. The depreciation on this modification is €475 per year.

On 01/04/2014, Machine No. 2 was traded in for €27,500 against a new Machine, No. 5, costing €55,000. The balance of the purchase price was paid immediately. It cost €2,000 to have the machine delivered and €400 to have it installed.

You are required to show, with workings, the following accounts for each of the two years 2013 and 2014:

(a) The Machinery Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Machinery Disposal Account. (14)
(d) (i) Explain why a company charges depreciation in calculating profit.
(ii) List the factors which should be considered when determining the depreciation policy on a particular asset. (8)

(60 marks)

3. Tabular Statement

The financial position of Watt Ltd, a grocer, on 01/01/2014 is shown in the following balance sheet:

Balance sheet as at 01/01/2014				
	Cost	**Dep to date**	**Net**	**Total**
Fixed Assets	**€**	**€**	**€**	**€**
Goodwill (cost €55,000)				45,000
Land & buildings	690,000	55,100	634,900	
Equipment	30,000	2,500	27,500	
Delivery vans	86,000	32,000	54,000	
	806,000	89,600	716,400	716,400
				761,400
Current Assets				
Stock		73,600		
Insurance prepaid		1,000		
Debtors		52,900	127,500	
Less Creditors: **amount falling due within 1 year**				
Creditors		82,300		
Bank		11,900		
Expenses due		3,700	97,900	29,600
				791,000
Financed by				
Capital and Reserves				
Authorised - 750,000 ordinary shares @ €1 each				
Issued - 480,000 ordinary shares @ €1 each		480,000		
Share premium		75,000		
Profit and loss balance		236,000		791,000
				791,000

The following transactions took place during 2014:

Jan Watt Ltd bought an adjoining business on 01/01/2014 which included buildings €240,000, delivery vans €42,000 and creditors €54,000. The purchase price was discharged by granting the seller 220,000 shares in Watt Ltd at a premium 20c per share.

Feb A creditor who was owed €2,500 by Watt Ltd accepted a fridge freezer, the book value of which was €2,200, in full settlement of the debt. This fridge freezer had cost €4,000.

April Watt Ltd decided to re-value the land and buildings on 01/04/2014 at €990,000. The land element of the new value is €170,000.

May Received a bank statement at the end of May showing a direct debit of €3,600 to cover fire insurance for year ended 31/03/2015 and a credit transfer received of €8,600 to cover 10 month's rent receivable in advance from May 1.

July A delivery van, which cost €15,000 and had a net book value of €3,000, was traded-in against a new van costing €24,000 on 01/07/2014. An allowance of €4,500 was made for the old van.

Nov A payment of €1,260 was received from T McDonagh, a debtor, whose debt had been previously written off and who now wishes to trade with Watt Ltd again. This represents 90% of the original debt and the debtor had undertaken to pay the remainder of the debt in January 2015. On the same day goods to the value of €720 were sold on credit to McDonagh. This is a mark-up of 20%.

Dec The depreciation charge on buildings for the year is to be of 2% of value at 01/04/2014. Depreciate delivery vans at 20% of cost per annum from date of purchase to date of sale.

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 31/12/2014.

(60 marks)

4. Farm Accounts

Among the assets and liabilities of John and Elaine Daly, who carry on a mixed farming business, on 01/01/2014 are: Land and Buildings at cost €450,000; Vehicles and Machinery at cost €82,000; Electricity due €330; Value of Cattle €60,000; Value of Sheep €24,000; Milk cheque due €1,800; Stock of Fuel €620; three months Investment Interest due €300.

The following is a summary taken from their cheque payments and lodgements books for the year ended 31/12/2014:

Lodgements	**€**	**Cheque Payments**	**€**
Balance 01/01/2014	27,200	Fertiliser	2,500
Milk	29,000	General farm expenses	14,200
Sheep	28,000	Dairy wages	2,600
Cattle	14,000	Sheep	18,500
Lambs	10,400	Cattle	12,600
Calves	6,500	Light, heat and fuel	2,210
Single payment – Sheep	2,100	Machinery	6,200
Single payment – Cattle	3,500	Repairs	5,000
Wool	1,400	Veterinary fees and medicines	2,480
Forestry premium	1,800	Bank Loan plus 18 months' interest at 6% per annum on 30/4/2014	21,800
Interest from 3% investment bond	600	Balance 31/12/2014	36,410
	€124,500		€124,500

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

		Cattle	**Sheep**
(i)	Value of Livestock on 31/12/2014 was	€75,000	€23,000

(ii) Farm produce used by the family during the year – Milk €750; Lamb €580.

(iii) Veterinary fees and medicines include a cheque for family health insurance for €1,500.

(iv) General farm expenses, fertiliser, veterinary fees and medicines are to be apportioned 70% to 'Cattle and Milk' and 30% to 'Sheep'.

(v) Other expenses and costs are to be apportioned 75% to general farm and 25% to household.

(vi) Depreciation to be provided on the following:
Vehicles and Machinery at the rate of 10% of cost per annum.
Buildings at 2% per annum. (Land at cost was €175,000.)

(vii) On 31/12/2014 a Milk cheque for €1,500 was due, Creditors for fertilisers amounted to €450 and Stock of Fuel was €560.

Required:

(a) Prepare a Statement of Capital for the farm on 01/01/2014. (20)

(b) Prepare an Enterprise Analysis Account for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/2014. (20)

(c) Prepare a General Profit & Loss Account for the year ended 31/12/2014 (10)

(d) Prepare the Dalys' Drawings Account. (5)

(e) (i) For what purposes does a farmer prepare a General Profit & Loss Account?
(ii) Outline the advantages of preparing farm enterprise analysis accounts. (5)

(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 GJ plc, a manufacturer in the food processing sector, for the year ended 31/12/2014. The company has an authorised capital of €900,000 made up of 800,000 ordinary shares at €1 each and 100,000 5% preference shares at €1 each. The firm has already issued 650,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2014	
	€
Sales	878,000
Cost of goods sold	(720,000)
Operating expenses for year	(90,000)
Interest	(14,000)
Net profit	54,000
Dividends paid	(44,000)
Retained profit	10,000
Profit and loss balance 01/01/2014	15,000
Profit and loss balance 31/12/2014	25,000

Ratios and information for year ended 31/12/2013	
Earnings per ordinary share	9.1c
Dividend per ordinary share	8.0c
Interest cover	6 times
Quick ratio	0.90 to 1
Return on capital employed	8.2%
Market value of an ordinary share	€0.97
Gearing	28%

Balance Sheet as at 31/12/2014	**€**	**€**
Fixed Assets		855,000
Investments (market value 31/12/2014 – €100,000)		110,000
		965,000
Current Assets (including stock €51,500 and		
debtors €80,000)	131,500	
Less Creditors: **amount falling due within 1 year**		
Trade creditors	(121,500)	10,000
		975,000
Financed by		
7% debentures (2016 secured)		200,000
Capital and Reserves		
Ordinary shares @ €1 each	650,000	
5% preference shares @ €1 each	100,000	
Profit and loss balance	25,000	775,000
		975,000

Market value of one ordinary share **€0.95 on 31/12/2014**.

(a) **You are required to calculate the following for 2014**: (where appropriate calculations should be made to **two** decimal places).

(i) The opening stock if the rate of stock turnover is 12 based on average stock.
(ii) The earnings per share.
(iii) The dividend yield.
(iv) Price earnings ratio.
(v) Interest cover. (50)

(b) An investor, Tom Murphy, is considering purchasing 150,000 of the already issued shares in GJ plc at 90c each. He intends using €50,000 of his own savings and the remainder would be borrowed at a fixed rate of 9%. Tom has consulted you, Barry Ryan, Financial Consultant, for advice. Write a report to Tom with your recommendations. You should include relevant ratios and other information in your report. (40)

(c) State the limitations of ratio analysis as a financial analysis technique. (10)

(100 marks)

6. Cash Flow Statement

The following are the Balance Sheets of Quig plc as at 31/12/2013 and 31/12/2014.

Balance Sheets as at	**31/12/2014**		**31/12/2013**	
Fixed Assets	**€**	**€**	**€**	**€**
Cost	640,000		470,000	
Less accumulated depreciation	(200,000)	440,000	(80,000)	390,000
Financial Assets				
Investments at cost		100,000		200,000
Current Assets				
Stock	350,000		295,000	
Debtors	170,000		110,000	
Less bad debt provision	(8,500)		(5,500)	
Government Securities	56,000		----------	
Cash	34,000		60,000	
	601,500		459,500	
Less Creditors: **amounts falling due within 1 year**				
Trade creditors	202,000		235,000	
Bank	18,000		31,000	
Taxation	55,000		47,000	
	275,000	326,500	313,000	146,500
		866,500		736,500
Financed by				
Creditors: **amounts falling due after more than one year**				
10% Debentures		180,000		130,000
Capital and Reserves				
Ordinary shares @ €1 each	310,000		250,000	
Share premium	15,000		---------	
Profit and Loss account	361,500	686,500	356,500	606,500
		866,500		736,500

The following information is also available:

1. 60,000 shares were issued at €1.25 per share.
2. Fixed assets, which cost €50,000 and on which total depreciation of €25,000 had been provided were sold for €30,000.
3. €50,000 Debentures were issued on 01/01/2014
4. Dividends paid during the year amounted to €55,000.
5. Taxation charge on profits for the year 2014 was €65,000
6. Investments which cost €100,000 were sold for cash at their book value.

Required:

(a) (i) Prepare an Abridged Profit & Loss account to ascertain the operating profit for the year ending 31/12/2014.

(ii) Prepare the Cash Flow Statement of Quig plc for the year ending 31/12/2014, including Reconciliation statements.

(88)

(b) (i) Outline the purposes of cash flow statements.

(ii) Explain, why having earned a profit during 2014, the company's cash balance declined. (12)

(100 marks)

7. Incomplete Records

On 01/01/2014, A. Murphy purchased a business for €220,000 consisting of the following tangible assets and liabilities: Premises €180,000; Stock €17,000; Debtors €18,000; 3 months Premises Insurance prepaid €1,200; Trade Creditors €22,500; Wages due €1,800 and Cash €400.

During 2014 Murphy did not keep a full set of accounts but was able to supply the following information on 31/12/2014.

Cash Payments:	Lodgements €110,000, General Expenses €45,800, Purchases €86,200.
Bank Payments:	Creditors €42,100, Light and Heat €6,800, Interest €1,500, annual Premises Insurance Premium €3,800, Standing Order for Charitable Organisation €3,000, Delivery Vans €35,200.
Bank Lodgements:	Debtors €34,000, Cash €110,000, Dividends €4,000.

Murphy took goods from stock to the value of €100 per week and cash €120 per week for household expenses during the year.

Murphy borrowed €120,000 on 01/09/2014, part of which was used to purchase an adjoining showroom costing €90,000. The remainder of the loan was used to purchase furniture. It was agreed that Murphy would pay interest on the last day of each month at a rate of 5% per annum. The capital sum was to be repaid in a lump sum in the year 2022 and to provide for this the bank was to transfer €1,250 on the last day of each month from Murphy's business bank account into an investment fund commencing on 30/09/2014.

Murphy estimated that 25% of the furniture, 20% of interest *payable* for the year and 25% of light and heat *used* should be attributed to the private section of the premises.

On the 31/12/2014 goods with a sales value of €6,000 which had been sold on credit at a mark-up of 20% on cost had not been recorded in the books. An invoice was issued to the debtor on the same date. The goods were still in the warehouse and were included in closing stock.

Included in the assets and liabilities of the firm on 31/12/2014 were: Stock €16,200, Debtors €20,400, Trade Creditors €32,600, Cash €600, Electricity due €380 and €30 Interest earned by the fund to date.

Required:

(a)	Trading and Profit and Loss Account for the year ended 31/12/2014. **(Show workings)**	(52)
(b)	Balance Sheet as at 31/12/2014. **(Show workings)**	(40)
(c)	Explain the 'Accruals Concept' and why it is fundamental to Accounting practice.	(8)

(100 marks)

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

8. Stock Valuation and Flexible Budgeting

(a) Stock Valuation

Jones Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2014.

Period	**Purchases on credit**	**Credit Sales**	**Cash Sales**
01/01/2014 – 31/03/2014	4,500 @ €6 each	1,200 @ €10 each	1,100 @ €11 each
01/04/2014 – 30/06/2014	2,400 @ €7 each	2,200 @ €11 each	1,400 @ €12 each
01/07/2014 – 30/09/2014	1,400 @ €6 each	1,400 @ €10 each	1,600 @ €13 each
01/10/2014 – 31/12/2014	2,600 @ €8 each	1,600 @ €11 each	1,100 @ €13 each

On 01/01/2014 there was an opening stock of 5,200 units @ €6 each.

Required:
(i) Calculate the value of closing stock using 'First in/First out' (FIFO) method.
(ii) Prepare a trading account for the year ending 31/12/2014.
(iii) Outline the implications of an incorrect stock valuation.

(b) Boland Ltd manufactures a single component for the aviation industry. The following production costs and output levels have been recorded during July, August and September 2014:

Output Levels	**70%**	**85%**	**95%**
Units	21,000	25,500	28,500
Costs	**€**	**€**	**€**
Direct materials	315,000	382,500	427,500
Direct Labour	231,000	280,500	313,500
Production Overheads	106,800	126,960	140,400
Other overhead costs	71,800	86,200	95,800
Administration expenses	35,000	35,000	35,000
	759,600	911,160	1,012,200

Profit is budgeted to be 20% of sales.

Required:
(i) Separate **production overheads** and **other overheads** into fixed and variable elements.
(ii) Prepare a Flexible Budget for 90% Activity Level using Marginal Costing principles and show the contribution.
(iii) Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)

9. Cash Budgeting

Retro Ltd is preparing to set up business on 01/07/2016 and has made the following forecast for the first six months of trading:

	July	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Total**
Sales	420,000	440,000	580,000	590,000	620,000	625,000	3,275,000
Purchases	180,000	220,000	260,000	265,000	340,000	370,000	1,635,000

(i) The expected selling price is €50 per unit.

(ii) The cash collection pattern from Debtors is expected to be:

Cash Customers 20% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 80% of sales revenue will be from credit customers. These debtors will pay their bills 50% in the month after sale and the remainder in the second month after sale.

(iii) The cash payments 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 €60,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €65,000 per month payable as incurred.

Capital Costs Equipment will be purchased on 1 July costing €42,000 which will have a useful life of 5 years. To finance this purchase a loan of €36,000 will be secured at 6% per annum. The capital sum is to be repaid in 36 monthly instalments commencing on 1 August. The interest for each month is to be paid on the last day of that month based on the amount of the loan outstanding at that date.

Required:

(a) Prepare a cash budget for six months July to December 2016.
(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2016.
(c) (i) What options does a business have when it has (a) a cash surplus and (b) a cash deficit?
(ii) On the basis of the cash budget you have prepared what advice would you give the management of Retro Ltd?

(80 marks)

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