Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2013

A C C O U N T I N G - H I G H E R L E V E L

(400 marks)

MONDAY JUNE 17 – 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 else 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 including a Manufacturing Account

Marjam Ltd, has an Authorised Capital of €1,800,000 divided into 1,000,000 Ordinary Shares at €1 each and 800,000 10% Preference Shares at €1 each. The following Trial Balance was extracted from its books at 31/12/2012:

	€	€
Factory Buildings (cost €880,000)	820,000	
Plant and Machinery (cost €270,000)	180,000	
Discount (Net)		8,400
Profit and Loss Balance 1/1/2012	18,100	
Stocks on hand 1/1/2012		
Finished Goods	69,500	
Raw Materials	34,400	
Work in Progress	23,700	
Debenture interest for the first three months	4,800	
4% Investments 1/1/2012	340,000	
Patents	22,600	
Purchase of raw materials	1,035,000	
Sales		1,540,000
Dividends paid	59,000	
Debtors and Creditors	102,600	98,200
Bank		41,000
9% Debentures		200,000
Universal Social Charge		2,100
Issued Share Capital – Ordinary Shares		600,000
– 10% Preference Shares		500,000
Direct factory wages	180,400	
General factory overheads	31,400	
Hire of special equipment	6,100	
Sale of scrap materials		3,000
Carriage on raw materials	4,600	
Administration expenses (including Suspense)	27,600	
Selling expenses (incorporating 3 months investment income)	32,900	
	2,992,700	2,992,700

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

(i) Stocks on hand at 31/12/2012: Finished goods €79,400
Raw materials €35,700
Work in progress €27,400
The finished goods figure includes stock which cost €4,400 but now has a net realisable value of €2,500.

(ii) Finished goods, sent to a customer on Dec 31 on a 'Sale or Return' basis were treated incorrectly as a credit sale. The recommended retail selling price of these goods was €6,000, which is cost plus 20%.

(iii) Repairs to plant and machinery amounting to €2,000 were carried out during the year by one of the firm's employees. An amount of €400 of this expenditure consisted of parts taken from the firm's stocks while the remainder represented wages.

(iv) Provide for depreciation on plant and machinery at the annual rate of 10% of cost from the date of purchase to the date of sale.
NOTE: On 31/3/2012 machinery, which had cost €20,000 on 30/6/2006, was traded in against a new machine which cost €51,000. An allowance of €8,000 was given on the old machine. The cheque for the net amount of this transaction was incorrectly treated as a purchase of raw materials. This was the only entry made in the books in respect of this transaction.

(v) 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 returns €1,000 entered only in the debtors account.

(vi) The figure for bank in the Trial Balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2012 has arrived showing an overdraft of €39,720. A comparison of the bank account and the bank statement has revealed the following discrepancies:
1. A cheque for €680 issued to a supplier had been entered in the books (cash book and ledger) as €860.
2. A credit transfer of €800 had been paid direct to the firm's bank account on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 20c in the €1.
3. A cheque for fees €300 issued to a director had not yet been presented for payment.

(vii) The Directors recommend that:
1. Provision be made for both Investment income and Debenture Interest due.
2. A provision for bad debts to be created equal to 4% of debtors.

You are required to prepare a:

(a) Manufacturing, Trading and Profit and Loss Account for the year ended 31/12/2012. (75)
(b) Balance Sheet as at 31/12/2012. (45)
(120 marks)

2. Depreciation of Fixed Assets

Blue Haulage Ltd prepares its final accounts to 31 December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum, calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2011, Blue Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2007 for €50,000
No. 2 purchased on 01/04/2008 for €60,000
No. 3 purchased on 01/09/2009 for €70,000

On 01/09/2011, Vehicle No. 1 was traded in for €20,000 against a new vehicle costing €75,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2009 costing €15,000. This refrigeration unit was depreciated by 30% for the first two years and thereafter at the same rate as Vehicle No. 1. On 01/04/2012, Vehicle No. 3 was crashed and traded in against a new vehicle costing €86,000. The company received compensation from the insurance company to the value of €25,000 and the Profit and Loss Account at 31/12/2012 showed a profit on disposal of €1,125 for Vehicle No. 3.

You are required to show, with workings, for each of the two years 2011 and 2012:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Why does a company charge depreciation in calculating profit?
(ii) Why would a company choose one method of depreciation over another? (8)

(60 marks)

3. Tabular Statement

The financial position of Cooper Ltd on 1/1/2012 is shown in the following balance sheet:

Balance sheet as at 1/1/2012

	Cost	Dep. to date	Net	Total
Intangible Fixed Assets	**€**	**€**	**€**	**€**
Goodwill (cost €65,000)				45,000
Fixed Assets				
Land & buildings	727,000	54,000	673,000	
Delivery vans	90,000	40,000	50,000	
	817,000	94,000	723,000	723,000
Current Assets				
Stock		91,600		
Debtors		55,800		
			147,400	
Less Creditors: amount falling due within 1 year				
Creditors		75,400		
Bank		15,800		
Expenses due		4,200	95,400	52,000
				820,000
Financed by				
Capital and Reserves				
Authorised – 1,000,000 ordinary shares @ €1 each				
Issued – 600,000 ordinary shares @ €1 each			600,000	
Share premium			80,000	
Profit and loss balance			140,000	820,000
				820,000

The following transactions took place during 2012:

- Jan Cooper Ltd bought an adjoining business on 1/1/2012 which included buildings €350,000, delivery vans €70,000, stock €25,000 and creditors €30,000. The purchase price was discharged by granting the seller 380,000 shares at €1 each in Cooper Ltd at a premium of 20c per share.
- Feb A creditor who was owed €8,900 by Cooper Ltd accepted a delivery van, the book value of which was €9,500, in full settlement of the debt. This delivery van had cost €14,500.
- April Cooper Ltd decided to re-value the land and buildings on 1/4/2012 at €1,200,000. This valuation includes land now valued at €180,000.
- May Received a bank statement on May 31 showing a direct debit of €8,400 to cover advertising for year ended 31/08/2012 and a credit transfer received of €9,900 to cover 11 months rent receivable from 01/03/2012.
- June A delivery van, which cost €20,000, was traded in against a new van costing €30,000. An allowance of €5,500 was made for the old van. Depreciation to date on the old van was €17,000.
- Aug A payment of €2,400 was received from E. Galvin, a debtor, whose debt had been previously written off and who now wishes to trade with Cooper Ltd again. This represents 80% of the original debt and Galvin had undertaken to pay the remainder of the debt in January 2013. On the same day goods were sold on credit to Galvin for €450. This was a mark-up on cost of 25%.
- Dec Depreciation on buildings is charged at the rate of 2% per annum of value at 1/4/2012. The depreciation charge for the year on delivery vans was €28,000.

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 31/12/2012.

(60 marks)

4. Club Accounts

Included among the assets and liabilities of the Tallones Basketball Club on 1/1/2012 were the following:
Clubhouse and Arena €680,000, Bar stock €2,200, Equipment (at cost) €23,000, Life membership €25,000, Bar Debtors €421, Bar creditors €1,600, Levy Reserve Fund €12,000, Wages due €2,800, Subscriptions received in advance €1,400.

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2012.

Receipts and Payments account for the year ended 31/12/2012

Receipts	**€**	**Payments**	**€**
Bank Current account	11,300	Bar purchases	28,700
Interest from 4% Government Investments	900	Catering costs	9,900
Arena rent	15,000	Sundry expenses	103,600
Catering receipts	12,400	Equipment	41,000
Annual sponsorship	73,000	Coaching expenses	4,600
Subscriptions	65,000	Repayment of €40,000 loan on 31/05/2012 together with 16 months interest	44,800
Bar receipts	42,410	Transfer to Building Society on 31/12/2012	28,000
Lotto receipts	52,500	Lotto costs	7,600
		Balance	4,310
	272,510		272,510

You are given the following additional information and instructions:

1. Bar stock on 31/12/2012 was €2,450.
2. Equipment owned on 31/12/2012 is to be depreciated at the rate of 20% of cost.
3. Clubhouse and Arena to be depreciated by 2%.
4. Bar debtors and creditors on 31/12/2012 were €190 and €1,330 respectively.
5. Investment interest due on 31/12/2012 was €300.
6. Subscriptions include:
   (i) Five Life memberships bringing total Life membership to 30.
   (ii) Subscriptions for 2013 amounting to €2,400.
   (iii) Levy for 2012 of €80 each on 150 members.
   (iv) Levy of €80 each on 15 members for 2011.
7. Life membership was to be credited to income over a 5 year period commencing in 2012.

You are required to:

(a) Show the Club's Accumulated Fund (Capital) on 1/1/2012. (25)
(b) Show the Income and Expenditure Account for the year ending 31/12/2012 (25)
(c) (i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.
(ii) The club has decided to lay an all-purpose floor at a cost of €150,000. The Treasurer has proposed to increase the levy by €120 per annum and extend it for five more years. As an ordinary member what arguments would you make against this proposal? (10)

(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 Dantzig plc, a manufacturer in food processing sector, for the year ended 31/12/2012. 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 firm has already issued 550,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss account for year ended 31/12/2012

	€
Sales	990,000
Costs of goods sold	(852,000)
Operating expenses for year	(91,000)
Interest	(16,000)
	31,000
Dividends paid	(25,000)
Retained Profit	6,000
Profit and Loss Balance 1/1/2012	20,000
Profit and Loss Balance 31/12/2012	26,000

Ratios and information for year ended 31/12/2011

Earnings per Ordinary Share	5.5c
Dividend per Ordinary Share	4.7c
Interest Cover	4 times
Quick Ratio	0.85 to 1
Return on Capital Employed	6.1%
Market value of an ordinary share	€0.90
Gearing	30%

Balance Sheet as at 31/12/2012	**€**	**€**
Fixed Assets		706,000
Investments (market value 31/12/2012 – €80,000)		180,000
		886,000
Current Assets (including Stock €31,500 and Debtors €90,000)	158,000	
Less Creditors: **amount falling due within 1 year**		
Trade Creditors	(168,000)	(10,000)
		876,000
Financed by		
8% Debentures (2015 secured)		200,000
Capital and Reserves		
Ordinary Shares @ €1 each	550,000	
5% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	26,000	676,000
		876,000

Market value of one ordinary share €0.85 on **31/12/2012**.

(a) **You are required to calculate the following for 2012**: (where appropriate calculations should be made to **two** decimal places).

(i) The opening stock if the rate of stock turnover is 10 based on average stock.
(ii) The Earnings per Share
(iii) The Dividend Yield
(iv) How long it would take one Ordinary share to recover its value at present earnings?
(v) Interest cover (50)

(b) A friend of yours has been given the opportunity to buy 200,000 shares of the already issued shares in Dantzig plc at 80c each but before doing so asks your advice. She would be using money borrowed at a fixed rate of 8% per annum. What advice would you give? Use relevant ratios and other information to support your answer. (40)

(c) Dantzig plc is considering expansion by purchasing another food business. The following information for 2012 has been obtained on two possible purchases of similar companies:

	AB Foods	**XY Traders**
Return on Capital Employed	8%	6%
Current Ratio	3.2:1	1.9:1
Liquid (Acid Test) Ratio	0.6:1	1.3:1

Advise Dantzig plc which business, if any, should be purchased on the basis of the information provided. (10)

(100 marks)

6. Published Accounts

Moorfields plc has an Authorised Capital of €850,000 divided into 550,000 Ordinary shares at €1 each and 300,000 6% Preference shares at €1 each. The following Trial Balance was extracted from its books at 31/12/2012.

	€	€
Vehicles at cost	260,000	
Vehicles – Accumulated Dep. on 1/1/2012		105,000
Investment income		4,200
Buildings at cost	880,000	
Buildings – Accumulated Dep. on 1/1/2012		50,500
Debtors and Creditors	240,000	184,000
4% Investments	300,000	
Stock at 1/1/2012	72,000	
Patents at 1/1/2012	36,000	
Administrative expenses	206,000	
Distribution costs	194,000	
Purchases and Sales	1,260,000	2,040,600
Rental income		64,000
5% Debentures 2017/2018		200,000
Profit on sale of land		80,000
Bank	57,800	
VAT		74,000
Dividends paid	50,000	
Profit and Loss at 1/1/2012		85,000
Issued Capital		
Ordinary Shares		500,000
Preference Shares		150,000
Provision for bad debts		12,500
Debenture interest paid	8,000	
Patent Royalties		14,000
	3,563,800	3,563,800

The following information is relevant:

(i) Stock 31/12/2012 is €85,000

(ii) The Patent was acquired on 1/1/2008 for €60,000. It is being amortised over 10 years in equal instalments. The amortisation is to be included in cost of sales.

(iii) Provide for debenture interest due, investment interest due, auditors fees €6,500, directors fees €35,000 and corporation tax €60,000.

(iv) Depreciation is to be provided for on buildings, at a rate of 2% straight line and is to be allocated 40% distribution costs and 60% administrative expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at the rate of 15% of cost.

(v) During the year land adjacent to the company's premises, which had cost €70,000 was sold for €150,000. At the end of the year the company re-valued its buildings to €970,000. The company wishes to incorporate this value in this year's accounts.

(vi) Included in administrative expenses is the receipt of €18,500 for discount.

You are required:

(a) To prepare the published profit and loss account for the year 31/12/2012 and a balance sheet as at that date in accordance with the Companies Acts and appropriate accounting standards showing the following notes:

1. Accounting policy note for tangible fixed assets and stock
2. Operating profit
3. Interest payable
4. Tangible fixed assets (85)

(b) (i) Name the bodies/institutions that regulate the production, content and presentation of company financial statements.

(ii) What is an Audit? Explain a qualified auditor's report. (15)

(100 marks)

7. **Incomplete Records**

On 1/1/2012, E. Kelly purchased a business for €205,000 consisting of the following tangible assets and liabilities: Premises €174,000; Stock €14,300; Debtors €14,000; 3 months premises Insurance prepaid €430; Trade Creditors €17,200 and Wages due €1,200.

During 2012 Kelly did not keep a full set of accounts but was able to supply the following information on 31/12/2012.

Cash Payments:	Lodgements €94,000, General Expenses €22,500, Purchases €51,000.
Bank Payments:	Equipment €30,000, Creditors €34,200, Light and Heat €4,600, Interest €2,400, annual Premises Insurance Premium €3,000, Standing Order for Charitable Organisation €2,500, Vehicle €32,000, Rent for one year €22,800.
Bank Lodgements:	Debtors €32,000, Cash €94,000, Dividends €3,600.

Kelly took goods from stock to the value of €80 per week and cash €60 per week for household expenses during the year.

Kelly borrowed €72,000 on 1/7/2012, part of which was used to purchase an adjoining warehouse costing €60,000. It was agreed that the sum borrowed would be repaid in 12 equal instalments over a six year period commencing on the 1 January 2013. Interest was to be charged at the rate of 10% per annum and paid monthly.

The figure for Rent was in respect of an adjoining building rented by Kelly on 1/8/2012. It was payable in advance and Kelly estimated that half of the building was used as a private residence and that 25% of the Light and Heat used should also be attributed to the private section of the building.

Included in the assets and liabilities of the firm on 31/12/2012 were: Stock €15,500 (including stock of heating oil €500), Debtors €16,600, Trade Creditors €14,300, Cash €550, Electricity due €640.

You are required to show, with workings, the:

(a) Trading and Profit and Loss Accounts for the year ended 31/12/2012. (52)
(b) Balance Sheet as at 31/12/2012. (40)
(c) What additional information would be available to Kelly if he used the 'double entry' system to record financial transactions? (8)

(100 marks)

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

8. Stock Valuation, Product Costing, Under and Over Absorption

(a) Stock Valuation

Blue 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 2012.

Period	Purchases on credit	Credit Sales	Cash Sales
01/01/2012-30/04/2012	4,000 @ €5 each	1,000 @ €9 each	1,500 @ €12 each
01/05/2012-31/08/2012	2,500 @ €6 each	1,200 @ €11 each	1,300 @ €13 each
01/09/2012-31/12/2012	1,700 @ €8 each	1,400 @ €11 each	1,200 @ €14 each

On 1/1/2012 there was opening stock of 4,500 units @ €5 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 31/12/2012.

(b) Product Costing

The following is the budgeted yearly overhead details of Grace Ltd, manufacturers of computer equipment which has three production departments.

Production departments	Budgeted Overheads	Budgeted Labour Hours	Wage Rate per hour
Manufacturing	€180,000	36,000 hours	€4
Assembly	€99,000	18,000 hours	€2.50
Finishing	€36,000	4,500 hours	€3.75

Budgeted general administration costs for the year €1,170,000

Details of Job Number 666
Direct Material 30 kgs at €10.20 per kg

Direct Labour Hours	Manufacturing	20 hours
	Assembly	6 hours
	Finishing	4 hours

All orders are priced using a profit margin of 25%.

Required:
(i) Calculate the overhead absorption rates for each department.
(ii) Calculate the selling price of Job Number 666.

(c) Under and Over Absorption

The information set out below refers to the budgeted and actual costs of Hake Manufacturing Ltd.

Budgeted	**Direct Labour Hours**	**Machine Hours**	**Total Overhead**
Department A	7,000	32,000	€160,000
Department B	48,000	7,000	€33,600
Department C	22,000	---	€46,200

Actual	**Direct Labour Hours**	**Machine Hours**	**Total Overhead**
Department A	9,000	37,000	€175,000
Department B	40,000	12,000	€29,000
Department C	27,000	---	€50,000

Required:
(i) Calculate departmental overhead absorption rates for Departments A, B and C.
(ii) Show the under/over absorption by department and in total for the period. Explain what these figures mean.

(80 marks)

9. Budgeting

Murray Ltd is preparing to set up business on 1/1/2014 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2014.

Sales Budget

	January	**February**	**March**	**April**	**May**	**June**
Sales units	7,000	8,000	10,000	9,000	10,500	11,000
Sales Revenue	€210,000	€240,000	€300,000	€270,000	€315,000	€330,000

(i) Each product unit requires 5 kgs of material X, which costs €2.00 per kg.

(ii) Stocks of finished goods are maintained at 70% of the following month's sales requirement.

(iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs, are held at the end of each month.

(iv) The cash collection pattern from sales is expected to be:

Cash Customers 40% of sales revenue will be for immediate cash.

Credit Customers 60% 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.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

Expected Costs Wages €25,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €30,000 per month, payable as incurred.

Capital Costs Equipment will be purchased in January costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €30,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2014.

Required:

(a) Prepare a Production Budget for the four months January to April, 2014.

(b) Prepare a Raw Materials Purchases Budget (in units and €) for the four months January to April, 2014.

(c) Prepare a Cash Budget for the 4 months January to April, 2014.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2014 (if the budgeted cost of a unit of finished goods is €25).

(e) (i) What useful information is available to Murray Ltd from the completed cash budget?

(ii) Explain what is meant by a Capital budget.

(80 marks)

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