AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA
DEPARTMENT OF EDUCATION AND SCIENCE

Scéimeanna Marcála | *Scrúduithe Ardteistiméireachta, 2001*

Cuntasaíoch | *Ardleibhéal*

Marking Scheme | *Leaving Certificate Examination, 2001*

Accounting | *Higher Level*

LEAVING CERTIFICATE ACCOUNTING

MARKING SCHEME FOR THE 2001 EXAMINATION

INTRODUCTION

The solutions and marking schemes for Accounting, Higher and Ordinary levels, are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in a circle like this ❻ alongside. These marks are then totalled for each section/page and shown in a square like this $\boxed{40}$.

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (eg A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where their calculation in Section (a) is incorrect, but this inaccurate information is used in the answer to Section (b), examiners give credit for analysis/decisions correctly made by the candidate on the basis of the incorrect data in this section. In this way, candidates are not penalised twice for the same error.

Accounting 2001 - Higher Level

Question 1 - Final Accounts including a Manufacturing Account.

(a) 75

Manufacturing Account of Quinn Ltd. for the year ended 31/12/2000

			£
Opening stock of raw materials			41,000 ❷
Purchases of raw materials	W 1		44,900 ❼
			485,900
Less Closing stock of raw materials	W 2		60,000 ❺
Cost of raw materials consumed			425,900
Manufacturing wages	W 3		127,200 ❹
Prime cost			**553,100**
Factory Overheads			
General factory expenses	W 4	63,100 ❺	
Depreciation-plant & machinery		49,500 ❹	
Depreciation-buildings		10,800 ❺	123,400
Factory cost			**676,500**
Work in progress 1/1/2000			36,000 ❶
			712,500
Less Work in progress 31/12/2000			42,000 ❶
			670,500
Less Sale of scrap materials		3,500 ❷	
Profit on sale of machinery	W 5	750 ❹	4,250
Cost of manufacture			**666,250**

Trading, Profit and Loss Account of Quinn Ltd for the year ended 31/12/2000.

			£
Sales	W 6		810,500 ❼
Stock of finished goods 1/1/2000		64,500 ❷	
Cost of goods produced		666,250 ❸	
Total available for sale		730,750	
Less Stock of finished goods 31/12/2000	W 7	89,200 ❹	
Cost of goods sold			641,550
Gross profit			**168,950**
Less Expenses			
Administration expenses			
Administration expenses		43,000 ❷	
Selling and Distribution expenses			
Selling expenses		29,400 ❷	72,400
Operating profit			96,550
Debenture interest			10,800 ❹
Net profit before taxation			85,750
Taxation on profit			24,000 ❶
Profit after taxation			61,750
Interim dividends	(6,000 + 20,500)	26,500 ❸	
Proposed dividends	(6,000 + 17,500)	23,500 ❸	50,000
Retained profit			11,750
Profit and loss balance at 1/1/2000			45,500 ❶
Profit and loss balance at 31/12/2000			57,250 ❸

Question 1- (continued)

(b) 45

Balance Sheet of Quinn Ltd as at 31/12/2000

Fixed Assets

Tangible assets		**Cost**	**Aggregate Depreciation**	**Net**	**Total**
Land and Buildings	W 8	❷ 660,000		660,000	
Plant and machinery	W 9, 10	❷ 235,000	❸ 105,750	129,250	
		895,000	105,750	789,250	789,250
Current Assets					
Stock: Raw materials			❷ 60,000		
Work in progress			❷ 42,000		
Finished goods			❷ 89,200	191,200	
Debtors	W 11			❻ 74,900	
					266,100
Creditors: amounts falling due within 1 year					
Trade Creditors	W 12		❹ 69,200		
VAT			❷ 16,400		
Debenture interest due			❹ 10,800		
Taxation			❷ 24,000		
Bank			❷ 9,400		
Dividends			❺ 23,500	153,300	
Net current assets					112,800
					902,050

Financed by

		Authorised	**Issued**	
Creditors: amounts falling due after more than 1 year				
8% Debentures				❶ 150,000
Capital and Reserves				
Issued ordinary shares of £1 each		650,000	❶ 380,000	
8% Preference shares of £1 each		300,000	❶ 200,000	
		950,000	580,000	
Revaluation reserve	W 13		❹ 114,800	
Profit and loss account			57,250	752,050
				902,050

Question 1 - (continued)

Workings

1	Purchases of raw materials	(461,900 + 11,000 - 28,000)	444,900
2	Closing stock Raw Materials	(49,000 + 11,000)	60,000
3	Manufacturing wages	(149,200 - 22,000)	127,200
4	Factory Overheads	(62,500 + 600)	63,100
5	Profit on sale of machinery	25,000 - 23,750 - 2,000	750
6	Sales	(821,500 - 2,000 – 9,000)	810,500
7	Closing stock Finished Goods	(82,000 + 7,200)	89,200
8	Land & Buildings	550,000 + 50,000 + 60,000	660,000
	Depreciation Land & Buildings	44,000 + 10,800 - 54,800	
9	Machinery	260,000 - 25,000	235,000
10	Provision for Depreciation - Machinery	(80,000 + 49,500 – 23,750)	105,750
11	Debtors	(84,500 - 9,000 - 600)	74,900
12	Creditors	(58,200 + 11,000)	69,200
13	Revaluation Reserve	(60,000 + 10,800 + 44,000)	114,800

<u>**Question 2 - Tabular Statement.**</u>

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	1/1/2000 £	January £	February £	March £	April £	May £	July £	Dec £	Total £
Assets									
Goodwill			❶ 10,000						10,000
Land and Buildings	350,000	❷130,000	❸120,000						600,000
Accumulated Depreciation	(28,000)	❷ 28,000						❸ (10,200)	(10,200)
Delivery Vans	65,000		❸ 44,000		❷12,000				121,000
Accumulated Depreciation	(26,000)				❷ 9,600			❷ (20,000)	(36,400)
Stock	63,700			❸ (2,500)					61,200
Debtors	52,600						❸750		53,350
Insurance A/c (Prepaid)	700					❸1,800		❸ (1,750)	750
TOTAL	**466,300**	**158,000**	**174,000**	**(2,500)**	**21,600**	**1,800**	**750**	**(31,950)**	**799,700**
Liabilities									
Creditors	51,500		❷ 24,000	❷ (2,250)					73,250
Wages due	2,800								2,800
Share Capital	300,000		❷120,000						420,000
Share Premium	36,000		❷ 30,000						66,000
Bank	11,700				❸20,500	❸1,800	❸ (500)		33,500
Revaluation Reserve		❸ 158,000							158,000
Profit and Loss	76,000			❶ (250)	❶ 1,100		❶ 1,250	❶ (1,750) ❷ (30,200)	❷46,150
TOTAL	**466,300**	**158,000**	**174,000**	**(2,500)**	**21,600**	**1,800**	**750**	**(31,950)**	**799,700**

Question 3 – Revaluation of Fixed Assets

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Buildings Account

		£			£
1/1/96	Balance b/d	❷ 350,000			
1/1/96	Revaluation Res.	❷ 130,000	31/12/96	Balance c/d	480,000
		480,000			480,000
1/1/98	Balance b/d	❶ 480,000	31/12/98	Balance c/d	800,000
1/1/98	Bank	❷ 240,000			
	Bank	❷ 60,000			
	Wages	❷ 20,000			
		800,000			800,000
1/1/99	Balance b/d	800,000	31/12/99	Balance c/d	880,000
1/1/99	Revaluation Res	❷ 80,000			
		880,000			880,000
1/1/00	Balance b/d	880,000	1/1/00	Disposal	❹ 528,000
1/1/00	Revaluation Reserve	❹ 48,000	31/12/00	Balance c/d	400,000
		928,000			928,000

Provision for Depreciation on Buildings Account

		£			£
1/1/96	Revaluation Res.	❷ 56,000	1/1/96	Balance b/d	❹ 56,000
31/12/96	Balance c/d	9,600	31/12/96	Profit and Loss	❷ 9,600
		65,600			65,600
31/12/97	Balance c/d	19,200	1/1/97	Balance b/d	9,600
			31/12/97	Profit and Loss	❷ 9,600
		19,200			19,200
31/12/98	Balance c/d	35,200	1/1/98	Balance b/d	19,200
			31/12/98	Profit and Loss	❷ 16,000
		35,200			35,200
1/1/99	Revaluation Res.	❷ 35,200	1/1/99	Balance c/d	35,200
31/12/99	Balance c/d	17,600	31/12/99	Profit and Loss	❷ 17,600
		52,800			52,800
1/1/00	Disposal	❷ 10,560	1/1/00	Balance b/d	17,600
1/1/00	Revaluation Res.	❹ 7,040	31/12/00	Profit and Loss	❷ 8,000
31/12/00	Balance c/d	8,000			
		25,600			25,600
			1/12/01	Balance b/d	8,000

Question 3 - (continued)

Disposal of Buildings Account

		£			£
1/1/00	Buildings	❷ 528,000	1/1/00	Depreciation	❷ 10,560
31/12/00	P & L (Profit)	❶ 32,560	1/1/00	Bank	❷550,000
		560,560			560,560

Revaluation Reserve Account

		£			£
1/1/00	Revenue reserve	❶ 262,800	1/1/96	Land and Buildings	❶130,000
				Provision for Dep	❶ 56,000
			1/1/99	Land and Buildings	❶ 80,000
				Provision for Dep	❶ 35,200
			1/1/00	Land and Buildings	❶ 48,000
				Provision for Dep	❶ 7,040

Revenue Reserve Account

		£
1/1/00	Revenue res-buildings	❶ 262,800

New Presentation of Cash Flow as required for Statements relating to periods from 23/3/1997

Question 4 - Cash Flow Statement

(a) Reconciliation of operating profit to net cash flow from operating activities: 20

Operating profit		❹	177,000
Depreciation charges for year	W 1	❹	39,000
Profit on sale of fixed assets	W 2	❹	(5,000)
Increase in stocks		❷	(35,000)
Increase in debtors		❷	(25,000)
Increase in creditors		❷	32,000
Net cash inflow from operating activities		❷	183,000

(b) Cash Flow Statement of Quality Plc for the year ended 31/12/2000 32

Operating Activities				£
Net cash inflow from operating activities			❷	183,000
Returns on investments and servicing of finance ❶				
Interest paid			❷	(7,000)
Taxation ❶				
Corporation tax paid			❸	(95,000)
Capital expenditure and financial investment ❶				
Investments		❷ (40,000)		
Payments to acquire tangible fixed assets		❹ (90,000)		
Receipts from sale of fixed assets		❷ 61,000		(69,000)
Equity dividends paid				
Dividends paid during year	W 3		❸	(42,000)
Net cash outflow before liquid resources and financing				(30,000)
Financing ❶				
Repayment of debentures		❷ (40,000)		
Receipts from issue of shares		❷ 80,000		
Receipts from share premium		❷ 20,000		60,000
Increase in cash ❷				**30,000**

Reconciliation of net cash flow to movement in net debt

		£
Increase in cash during period	❶	30,000
Cash used to purchase debentures		40,000
Change in net debt		70,000
Net debt at 1/1/2000		80,000)
Net debt at 31/12/2000	❶	(10,000)

(c) 8

Credit sales affect profit but do not affect cash ❹
Non-cash losses and gains affect profit but not cash ❹
Purchase and sale of fixed assets by cash affect cash but not profit
Introduction or withdrawal of capital in cash affect cash but not profit

Old Presentation of Cash Flow Statement on next page

Question 4 - Cash Flow Statement - Old Presentation

(a) 20

Reconciliation of operating profit to net cash flow from operating activities:

			£
Operating profit		❹	177,000
Depreciation charges for year	W 1	❹	39,000
Profit on sale of fixed assets	W 2	❹	(5,000)
Increase in stocks		❷	(35,000)
Increase in debtors		❷	(25,000)
Increase in creditors		❷	32,000
Net cash inflow from operating activities		❷	183,000

(b) 32

Cash Flow Statement of Quality Plc for the year ended 31/12/2000

			£
Operating Activities			
Net cash inflow from operating activities			❷ 183,000
Returns on investments and servicing of finance ❶			
Interest paid		❷ (7,000)	
Dividends paid during year	W 3	❸ (42,000)	(49,000)
Taxation ❶			
Corporation tax paid			❸ (95,000)
Investing Activities ❶			
Investments		❷ (40,000)	
Payments to acquire tangible fixed assets		❹ (90,000)	
Receipts from sale of fixed assets		❷ 61,000	(69,000)
Net cash outflow before financing ❷			(30,000)
Financing ❶			
Repayment of debentures		❷ (40,000)	
Receipts from issue of shares		❷ 80,000	
Receipts from share premium		❷ 20,000	60,000
Increase in cash ❷			**30,000**

(c) 8

Credit sales affects profit but does not affect cash ❹
Non-cash losses and gains affect profit but not cash ❹
Cash purchase and sale of fixed assets affect cash but not profit
Introduction or withdrawal of capital affect cash but not profit

Question 4 - continued

Workings

(1) Depreciation

Depreciation provision on machinery at 31/12/2000	170,000
Less Depreciation provision on machinery at 1/1/2000	140,000
Decrease in provision	30,000
Depreciation on buildings	9,000
Depreciation for year	39,000

(2) Profit on disposal of fixed assets

Cost of buildings disposed	60,000
Depreciation on disposed buildings	4,000
Book value	56,000
Profit *on disposal of fixed assets*	5,000
Amount received for buildings	61,000

(3) Dividends paid

Dividends due at 31/12/1999	30,000
Add interim dividends 2000	12,000
Amount paid during 2000	42,000

(4) Taxation

Taxation due 31/12/1999	65,000
Taxation for year 2000	80,000
	145,000
Less taxation due 31/12/2000	50,000
Taxation paid	95,000

Question 5 – Interpretation of Final Accounts

(a) $\boxed{45}$

Interest cover	$\frac{\text{Net profit before interest}}{\text{Interest}}$	=	$\frac{65{,}000}{15{,}000}$	=	4.3 times ❽
Earnings per share	$\frac{\text{Net profit after Pref Div}}{\text{Number of ordinary shares}}$	=	$\frac{46{,}000}{350{,}000}$	=	13.1p ❽
Opening stock	$\frac{\text{Cost of sales}}{\text{Average stock}}$ = 15	=	$\frac{690{,}000}{15 \text{ x Av stock}}$		
	Average stock = 46,000				
	Opening stock = (46,000 x 2) less 47,000			=	£45,000 ❾
Period to recoup share	$\frac{\text{Market price}}{\text{Earnings per share}}$	=	$\frac{200\text{p}}{13.14\text{p}}$	=	15.2 years ❾
Dividend Yield	$\frac{\text{Dividend per share x 100}}{\text{Market price}}$	=	$\frac{12\text{p x 100}}{200\text{p}}$	=	6% ⓫

(b) $\boxed{45}$

The debenture holders would be interested in the following:

- **Interest Cover:** The net profit figure only covers the interest 4.33 times and not enough funds are being generated to provide for the repayment of the loan in 4 years time. It has dropped below last years figure of 6 times. ❽
- **Dividend policy**. Based on this year's earnings the dividends proposed are excessive and instead some of these profits should be retained or put aside for repayment of debentures. The dividend cover is only 1.08 times ❽
- **Liquidity:** It is serious as indicated by the current ratio and acid test ratio of 1.2 to 1 and 0.61 to 1 respectively. This indicates a difficulty in paying debts including future interest. The acid test ratio has dropped from a satisfactory figure of 1.3 to 1 last year. ❽

- **Profitability:** The return on capital employed of 11% must be compared with return From risk free investments. This return must be improved in order to repay debentures without having to resort to sale of fixed assets. The return is slightly down on last years figure of 11.8%, and is only just above the debenture interest rate of 10%. The Gross Profit Percentage has dropped from 25% to 22%. This is a major concern. ❽

- **Real value of fixed assets:** The real value of fixed assets and intangible assets should be questioned. There are no write offs. The debenture holders' would be interested in the assets to ensure that there is adequate security for their loan. ❽

- **Value of Share:** The earnings per share is down from 15p to 13.14p per share and the market value of each share is down from £2.15 to £2. This indicates a lack of confidence in the future. ❺

- **Sector:** Many companies in this sector are currently having difficulties.

- **Gearing:** The company is low geared. Its gearing at 31/12/2000 is 33.8%

(c) 10

Causes of difference in gross profit percentage

- Cash losses ❷
- Stock losses ❷
- Mark downs during sales ❷
- Incorrect valuation of stock ❷
- Increased purchase price without increase in sales price ❷
- Change in sales mix.

Question 6 – Final accounts of a Service Firm

Statement of Capital and Reserves on 1/1/2000

20

			£	£
Assets				
Buildings and grounds	(440,000 – 26,400)	❷	413,600	
Equipment	(110,000 – 66,000)	❷	44,000	
Furniture	(22,000 – 13,200)	❷	8,800	
Investments		❶	60,000	
Stock - Health food		❶	1,200	
Stock – oil		❶	880	
Contract cleaning prepaid		❶	900	
Cash at bank		❶	3,480	532,860
Less Liabilities				
Creditors for supplies		❶	1,300	
Customers' advance deposits		❶	7,000	
Loan		❷	40,000	
Interest on loan	(12 months @ £400 per month)	❷	4,800	
Issued capital		❶	380,000	433,100
Reserves				❷ 99,760

Health Shop Profit and Loss Account for year ended 31/12/2000

12

			£	£
Shop receipts - sales				❸ 72,000
Less Expenses				
Cost of goods sold -	1,200 + 38,200 – 1,620	❻	37,780	
Wages and Salaries	(40% of 12,000)	❸	4,800	42,580
Contribution from health shop				29,420

Profit and Loss Account for year ended 31/12/2000

36

				£	£
Income					
Interest received			❶	2,250	
Profit on health shop			❶	29,420	
Donations			❶	15,000	
Customers' fees		W 1	❹	198,650	245,320
Less Expenses					
Wages and Salaries	(94,150 – 4,800)		❷	89,350	
Insurance			❶	5,600	
Light and heat		W 2	❹	4,200	
Purchases - supplies		W 3	❺	40,150	
Loan interest		W 4	❸	1,600	
Laundry			❶	5,400	
Postage and telephone			❶	1,940	
Depreciation - Buildings		W 5	❷	10,000	
- Equipment			❷	24,000	
- Furniture			❷	4,400	
Contract Cleaning		W 6	❸	3,900	190,540
Net Profit for year					❷ 54,780
Add Reserve 1/1/2000					❶ 99,760
Profit and Loss balance 31/12/2000					154,540

Question 6 – (continued)

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Balance Sheet as at 31/12/2000

		Cost	Depreciation	Net
Fixed Assets		**£**	**£**	**£**
Buildings and Grounds		❶ 550,000		550,000
Equipment	(110,000 + 10,000)	❷ 120,000	❷ 90,000	30,000
Furniture		❷ 22,000	❷ 17,600	4,400
		692,000	107,600	584,400
Investments				❷ 60,000
				644,400
Current Assets				
Closing stock	- shop goods	❷ 1,620		
	- oil	❷ 400		
Cleaning prepaid		❷ 300		
Customers' fees due		❷ 550	2,870	
Less Creditors: amounts falling due within 1 year				
Bank overdraft		❷ 21,760		
Electricity due		❷ 320		
Customers' advance deposits		❷ 3,000		
Creditors for supplies		❷ 1,250	(26,330)	(23,460)
				620,940
Financed by				
Share Capital and reserves		**Authorised**	**Issued**	
Ordinary shares		❶ 500,000	❶ 380,000	
Revaluation Reserve	**(W 7)**		❸ 86,400	
Profit and Loss Balance			154,540	620,940
				620,940

Workings

1	**Customers' fees** – amount received	194,100	
	Add advance deposits	7,000	
	Add fees due	550	
	Less fees prepaid 31/12/2000	(3,000)	198,650
2	**Light and heat** – amount paid	3,400	
	Add stock – heating oil 1/1/2000	880	
	Add electricity due 31/12/2000	320	
	Less stock – heating oil 1/1/2000	(400)	4,200
3	**Purchases** (40,200 + 1,250 - 1,300)		40,150
4	**Loan Interest** paid	6,400	
	Less interest due 1/1/2000 for 1 year @ £400 per month	4,800	1,600
5	**Depreciation** - Buildings & grounds 2% x (440,000+60,000)		10,000
	- Equipment 20% x (110,000 + 11,000)		24,000
	- Furniture 20% x (22,000)		4,400
6	**Contract Cleaning** – amount paid	3,300	
	Add amount prepaid 1/1/2000	900	
	Less amount 31/12/2000	(300)	3,900
7	**Revaluation Reserve**		
	Buildings (550,000 - 500,000 including extension)	50,000	
	Depreciation (26,400 + 10,000)	36,400	86,400

Question 7 – Incomplete Records

50

Balance Sheet as at 31 December 2000

			£	£
Intangible Assets				
Goodwill				❸ 8,000
Fixed Assets				
Buildings			❸ 295,000	
Equipment			❸ 9,600	304,600
Financial Assets				
Investments				❹ 3,665
				316,265
Current Assets				
Stock at 31 December 2000		❶ 18,400		
Trade Debtors		❶ 21,600		
Bank		❶ 87,670		
Rates prepaid		❺ 900	128,570	
Less Creditors: amounts falling due within 1 year				
Creditors		❶ 19,700		
Interest due		❸ 1,125		
Electricity due		❷ 660	(21,485)	
Working Capital				107,085
				423,350
Financed by				
Creditors: amounts falling due after more than 1 year				
Loan				❷ 150,000
Capital - Balance at 1/1/2000			❷ 260,000	
Add Capital introduced			❸ 2,000	
Less Drawings	**W 10**		❿ (18,247)	243,753
				393,753
Add Net Profit	**W 1**			❻ 29,597
Capital Employed				423,350

Question 7 – (continued)

(b)

40

Trading and Profit and Loss Account for year ended 31 December 2000

			£	£
Sales	**W 3**			❷ 264,850
Less Cost of goods sold				
Stock at 1 January 2000		❷	14,500	
Add Purchases (167,490 - 4,680)	**W 5**	❷	162,810	
			177,310	
Less Stock 31 December 2000		❷	(18,400)	
Cost of sales	**W 4**			❷ 158,910
Gross Profit	**W 2**			❷ 105,940
Add Investment income				❸ 65
				106,005
Less Expenses				
Wages and general expenses	**W 6**	❻	64,400	
Light and heat	**W 7**	❻	5,808	
Rates	**W 8**	❻	3,500	
Interest	**W 9**	❻	2,700	76,408
Net Profit	**W 1**			❶ 29,597

(c)

10

Quaid should keep a detailed cash book and general ledger supported by appropriate subsidiary books. This would enable Quaid to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

Question 7 – (continued)

Workings

			£	£
1	**Net profit for year (balancing figure in balance sheet)**			
	Total net assets		423,350	
	Less Loan		(150,000)	
	Less capital after drawings and before profit		(243,753)	29,957
2	**Gross profit**			
	Net profit + expenses - gains =	(29,957 + 76,408 – 65)		105,940
3	**Sales**			
	Gross profit = 40% of sales =	105,940 x 2.5		264,850
4	**Cost of sales**			
	Sales less gross profit =	264,850 - 105,940		158,910
5	**Purchases**			
	Cost of sales + closing stock - opening stock	158,910 + 18,400 – 14,500		162,810
6	**Wages and general expenses** - amount paid		68,000	
	Add college fees 30% of £4,000		1,200	
	Less commission due at 1/1/2000		(4,800)	64,400
7	**Light and heat** - amount paid		6,600	
	Add electricity due 31/12/2000		660	
	Less drawings		(1,452)	
	Profit and loss account			5,808
8	**Rates** - amount paid		3,600	
	Add rates prepaid 1/1/2000		800	
	Less rates prepaid 31/12/2000		(900)	
	Profit and loss account			3,500
9	**Interest** - amount paid		2,250	
	Add interest due		1,125	
	Less drawings		(675)	
	Profit and loss account			2,700
10	**Drawings**			
	College fees – family member		2,800	
	Equipment		2,400	
	Drawings of stock		4,680	
	Cash		6,240	
	Light and heat		1,452	
	Interest		675	18,247

Question 8 – Marginal Costing

80

		£	£ (per unit)
Sales: (70,000 @ £13)		910,000	13.00
Less Variable costs:			
Direct materials	315,000		
Direct labour	175,000		
Factory overheads (40%)	25,200		
Sales Commission (5% of sales)	45,500		
Total variable costs		560,700	8.01 (7.36 + 0.65)
Contribution		349,300	**4.99**
Less Fixed Costs:			
Factory overheads (60%)	37,800		
Administration expenses	105,000		
Selling expenses (excluding commission)	39,500	182,300	
Net Profit		167,000	

(a) Break-even point $= \dfrac{\text{Fixed Costs}}{\text{CPU}} = \dfrac{£182{,}300}{£4.99} =$ **36,534 units** ❿

Margin of safety = Budgeted sales less break-even point

= 70,000 - 36,534 = **33,466 units** ❺

(b) Sales in units required to provide increase of 20% in net profit

	£
Net Profit 2000	167,000
Increase in Net profit 2000 (+ 20%)	33,400
Net profit required 2001	200,400

❻ ❻

$\dfrac{\text{Fixed Costs + Profit target}}{\text{CPU}} = \dfrac{£182{,}300 + 200{,}400}{£4.99} =$ ❷ **76,694 units**

❻

Question 8 - continued

(c) Selling price for 2001

Profit if selling price dropped to £12 in 2001

	£
New Selling Price	12.00
Variable (marginal) Cost (£7.36 + £0.60)	7.96
Contribution per unit	4.04

		£
Sales in units (85,000)		
Total Contribution (85,000 x £4.04)	❻	343,400
Less Fixed Costs	❻	193,300
Profit	❷	**150,100**

(d)

2000 Fixed costs	182,300
2000 Fixed costs + 10%	18,230
2001 Fixed costs	200,530

Contribution required for 2001 = Fixed costs + Profit
= 200,530 + 167,000 = £367,530

Contribution per unit 2001 = $\frac{\text{Total contribution}}{\text{Budgeted sales (in units)}} = \frac{£367,530}{70,000} =$ £5.2504 ❾

Variable costs excluding commission per unit	=	£7.3600
95% of selling price	=	12.6104
100%	=	**£13.27** ❼

(e) $\frac{\text{Fixed Costs}}{\text{Contribution - 10\% of S.P.}}$ ❹ $\frac{£182,300}{£5.94 - 1.40}$ ❺ ❹ ❷ **40,155 units**

Question 9 - Budgeting

(a)

16

Production Budget - Quinlan Ltd.

	Primary	Superb
	Units	**Units**
Required by sales	6,000 ❹	4,500 ❹
Closing stock (80% of opening stock)	280 ❷	200 ❷
	6,280	4,700
Opening stock	(350) ❷	(250) ❷
Budgeted production in units	**5,930**	**4,450**

(b)

20

Raw Materials Purchases Budget

			Material W	Material X	
			kgs	**kgs**	
Required by production	**- Primary**	(5,930 x 6)	35,580 ❷	23,720 ❷	(5,930 x 4)
	- Superb	(4,450 x 5)	22,250 ❷	31,150 ❷	(4,450 x 7)
			57,830	54,870	
Add closing stock (80% of opening stock)			4,000 ❷	3,200 ❷	
			61,830	58,070	
Less opening stock			(5,000) ❷	(4,000) ❷	
Required Purchases of raw materials in kg's			56,830	54,070	
Purchase price			£3 ❷	£5 ❷	
Purchase cost			**£170,490**	**£270,350**	

Question 9 - continued

(c)

30

Budgeted Manufacturing Account For year ending 31/12/2001

			£
Direct Materials			
Opening stock of raw materials	(5,000 x £2.50 + 4,000 x £4.50)		30,500 ❹
Purchase of raw materials	(£170,490 + £270,350)		440,840 ❹
			471,340
Less Closing stock of materials	(4,000 x £3 + 3,200 x £5)		(28,000) ❹
			443,340
Direct labour			
Primary	(5,930 x 7 hrs x £11)	456,610 ❸	
Superb	(4,450 x 8 hrs x £11)	391,600 ❸	48,210
Variable overheads:			
Primary	(5,930 x 7 hrs x £4.50)	186,795 ❸	
Superb	(4,450 x 8 hrs x £4.50)	160,200 ❸	46,995
Fixed overheads			116,000 ❷
Total Production Cost			**£1,754,545** ❹

(d)

14

Budgeted Trading Account For year ending 31/12/2001

			£
Sales	(£1,140,000 + £1,035,000)		2,175,000 ❷
Less Cost of sales			
Opening stock	(350 x £160 + 250 x £180)	101,000 ❸	
Add Cost of manufacture		1,754,545 ❸	
		1,855,545	
Less Closing stock	(£157 x 280 + £186 x 200)	81,160 ❹	774,385
Gross Profit			400,615 ❷

Accounting 2001 - Ordinary Level

Question 1 – Final Accounts of a Company

80

(a) Trading and Profit and Loss Account for the year ended 31 December 2000

		£	£	£	
Sales less returns in (£731,000 - £1,000)				730,000	❼
Less Cost of sales					
Stock 1/1/2000			85,600 ❸		
Add Purchases			480,000 ❸		
			565,600		
Less Stock 31/12/2000			98,500 ❸	467,100	
Gross profit				262,900	
Less Expenses					
Administration ❷					
Stationery (£500 + £2,400 - £600)			2,300 ❾		
Salaries	82,000 ❸				
Directors fees	28,000 ❸				
Light Heat and Insurance	16,000 ❸				
Depreciation – Buildings	12,000 ❹				
Depreciation - Office equipment	1,200 ❹	141,500			
Selling and Distribution ❷					
Advertising (£7,200 - £1,800)			5,400 ❼	146,900	
				116,000	
Add Operating Income					
Commission				9,000	❹
Provision for bad debts (£2,800 - £1,980)				820	❼
Operating profit				125,820	
Less Debenture interest				8,250	❼
Net profit for year				117,570	
Less Corporation tax				10,000	❸
Profit after taxation				107,570	
Profit and loss balance 1/1/2000				21,000	❷
Profit and loss balance carried forward 31/12/2000				128,570	❹

Question 1 – (continued)

(c) 40

Balance Sheet at 31 December 2000

	Cost	Accumulated Depreciation	Net	Total
Intangible fixed assets	£	£	£	£
Patents				60,000 ❷
Tangible fixed assets				
Buildings	600,000 ❷	96,000 ❸	504,000	
Office Equipment	20,000 ❷	9,200 ❸	10,800	
	620,000	105,200	514,800	514,800
				574,800
Current assets				
Stock of goods for resale			98,500 ❸	
Stock of stationery			600 ❸	
Advertising prepaid			1,800 ❸	
Trade debtors		66,000 ❷		
Less Provision		1,980 ❷	64,020	
			164,920	
Creditors: **amounts falling due within one year**				
Debenture interest due		8,250 ❸		
Bank		15,700 ❷		
Trade creditors		55,000 ❷		
Corporation tax due		10,000 ❷		
VAT		2,200 ❷	91,150	
Working capital				73,770
				648,570
Financed by				
Creditors: **amounts falling due after more than one year**				
11% Debentures				100,000 ❷
Capital and reserves		**Authorised**	**Issued**	
Ordinary shares at £1 each		660,000 ❶	420,000 ❶	
Profit and loss account			128,570	548,570
Capital employed				648,570

Question 2 – Service Firm accounts

(a)

20

Statement of Capital on 1/1/2000

	£	£
Assets		
Buildings	175,000 ❷	
Furniture	3,900 ❷	
Dental equipment	72,000 ❷	
Motor car	22,000 ❷	
Amounts due from patients	4,500 ❷	
Stock dental materials	645 ❷	
Cash at bank	2,350 ❸	280,395
Less Liabilities		
Electricity due		150 ❸
Capital		280,245 ❷

(b)

40

Income and Expenditure (Profit and Loss) Account for Year ended 31/12/2000

			£	£
Income				
Patients fees		W 1		98,760 ❻
Less Expenditure				
Dental materials		W 2	6,010 ❻	
Technicians fees			10,420 ❷	
Anaesthetist's fees			5,540 ❷	
Insurance			1,660 ❷	
Electricity	(740 - 150)		590 ❹	
Magazines			124 ❷	
Telephone			1,756 ❷	
Motor expenses			2,444 ❷	
Audit Fees			720 ❷	
Receptionist's salary	(14,000 + 1,100)		15,100 ❹	
Depreciation - Equipment		W 3	7,980 ❷	
- Car		W 4	4,400 ❷	56,744
Net Profit				42,016 ❷

Workings

1	**Patients fees** - amount received		100,400	
	Add amount due 31/12/2000		2,860	
	Less amount due 1/1/2000		(4,500)	98,760
2	**Dental materials** – purchases		7,630	
	Add stock 1/1/2000		645	
	Less stock 31/12/2000		(2,265)	6,010
3	**Depreciation Equipment**	10% of (72,000 + 7,800)		7,980
4	**Depreciation Car**	20% of (22,000)		4,400

Question 3 - Corrections of Errors

(a) 35

Journal Entries

		Debit	Credit
1	Suspense account	840 ❷	
	Discount allowed account		420 ❷
	Discount received account		420 ❷
	Being cancellation of entry in discount allowed account and recording of entry in discount received account ❶		
2	Shop equipment account	2,400 ❸	
	Purchases account		2,400 ❸
	Suspense account	4,800 ❷	
	Creditors account		4,800 ❷
	Being recording of purchases of equipment in the books ❶		
3	Suspense account	2,700 ❸	
	Purchases account		2,700 ❸
	Being correction of incorrect figure posted to the purchases account ❶		
4	Drawings account	150 ❸	
	Purchases account		150 ❸
	Being transfer of entry from cash account to purchases account		
5	Sales returns account	110 ❷	
	Suspense account		110 ❷
	Being correction of understatement of sales returns account		

(b) 25

Statement of Correct Net Profit

		£
Original Net Profit		21,000 ❺
Add Discount allowed	(i)	420 ❸
Discount received	(i)	420 ❸
Purchases	(ii)	2,400 ❸
Purchases	(iii)	2,400 ❸
Purchases	(iv)	150 ❸
		27,090
Less Sales Returns		(110) ❸
Correct Net Profit		26,980 ❷

Question 4 – Ledger Accounts

(a) 25

Rent Payable Account

		£			£
01/01/99	Balance b/d	900 ❻	31/12/99	Profit and Loss	4,500 ❸
01/04/99	Bank	2,400 ❸	31/12/99	Balance c/d	1,200
01/10/99	Bank	2,400 ❸			
		5,700			5,700
01/01/00	Balance b/d	1,200 ❶			
01/04/00	Bank	2,680 ❸	31/12/00	Profit & Loss	5,220 ❸
01/10/00	Bank	2,680 ❸	31/12/00	Balance c/d	1,340
		6,560			6,560
01/01/01	Balance b/d	1,340			

(b) 35

K. Joyce Account

		£			£
01/01/99	Balance b/d	1,200 ❹	01/06/99	Bank	300 ❻
			01/06/99	Bad debts provision	900 ❺
		1,200			1,200

(a) **Provision for Bad Debts Account**

		£			£
01/06/99	Bad Debts Joyce	900 ❹	01/01/99	Balance b/d	1,320 ❻
31/12/99	Bad Debt	200 ❹	31/12/99	Profit and Loss	1,080 ❸
31/12/99	Balance c/d	1,300 ❸			
		2.400			2.400

Question 5- Interpretation of Accounts

(a) 40

1 **Percentage Mark - up on cost**

$$\frac{\text{Gross Profit x 100}}{\text{Cost of Sales}} = \frac{105{,}000 \times 100}{385{,}000} = 27.3\%$$ ⑩

2 **Closing Stock** = £45,000 ⑩

3 **Period of credit given to Debtors**

$$\frac{\text{Debtors x 365}}{\text{Credit Sales}} = \frac{36{,}000 \times 365}{490{,}000} = 27 \text{ days}$$ ⑩

4 **Return on Capital Employed**

$$\frac{\text{Operating profit x 100}}{\text{Capital employed}} = \frac{(62{,}000 + 4{,}000) \times 100}{424{,}000} = 15.57\%$$ ⑩

(b) 40

(i) Debentures (2005/2006): Debentures are long term loans. They must be repaid in full in 2005 or 2006. Normally assets are pledged to the lender up to the value of the loan. Interest at the rate of 8% per annum is paid in the meantime. ⑩

(ii) Intangible Assets: These are items of value that are not visible but saleable. They have a long-term value to a firm but do not have a physical presence e.g Goodwill, Patents. ⑩

(iii) Rate of Stock Turnover: This is the number of times during the year that the average stock is sold. The higher this figure is the better. It is calculated by dividing the Cost of Sales by the average Stock. ⑩

(iv) Capital Employed: This is the total amount invested in the business. It is the shareholders' funds plus the long-term liabilities. ⑩

(c) 10

Businesses take risks and for this they expect to earn more than they could get by investing their money in risk-free securities. The Return on Capital Employed for 2000 was 15.57%. The return currently available from banks and building societies is less than 5% so the company is performing well. It should not consider selling out at this stage.

(d) 10

In 1999 the current ratio was 1.5 to 1 and the liquid ratio was 0.9 to 1. This could be considered just about adequate. However in 2000 the company is more liquid as both ratios of 2.6 to 1 and 1.26 to 1 are favourable when compared to business norms and indicates that the company is capable of paying it's short-term debts. In 2000 the company has £1.26 available for each £1 owed.

Question 6 - Incomplete Records

(a)

30

Creditors Control Account

2000		**£**	**2000**		**£**
31 Dec	Cash paid	24,200 ❸	1 Jan	Balance b/d	7,200 ❸
	Balance c/d	6,900 ❸	31 Dec	****Credit Purchases***	23,900
		31,100			31,100

Debtors Control Account

2000		**£**	**2000**		**£**
1 Jan	Balance b/d	3,400 ❸	31 Dec	Cash	21,200 ❸
	****Credit Sales***	21,900		Balance c/d	4,100 ❸
		25,300			25,300

Total Sales	**£**	**Total Purchases**	**£**
Credit sales	21,900 ❸	Credit purchases	23,900 ❸
Cash sales	83,400 ❸	Cash purchases	49,100 ❸
Total sales	105,300	Total purchases	73,000

(b)

30

Trading and profit and Loss Account for year ended 31 December 2000

		£	**£**	**£**
Sales				105,300 ❸
Less Cost of goods sold				
Stock at 1 January			8,700 ❷	
Add purchases			73,000 ❸	
			81,700	
Less Stock at 31 Dec. 2000			9,200 ❷	72,500
Gross profit				32,800
Less Expenses				
Wages and general expenses	**W 1**			19,620 ❼
				13,180
Add Rent				4,500 ❸
Commission received	**W 2**			1,100 ❻
Net profit				18,780 ❹

Question 6 – (continued)

(c) 40

Balance Sheet at 31 December 2000

		£	£	£
Fixed Assets				
Premises			180,000 ❸	
Delivery Vans			26,000 ❸	
Furniture			4,300 ❸	210,300
Current Assets				
Stock		9,200 ❸		
Trade debtors		4,100 ❸		
Bank		800 ❹		
Commission receivable due		340 ❹	14,440	
Less Creditors: amounts falling due within 1 year.				
Trade creditors		6,900 ❸		
Accruals (Expenses)		380 ❹	7,280	
Net Current assets				7,160
				217,460
Financed by				
Capital				
Balance at 1 Jan 2000	**W 3**		211,180 ❼	
Add Net profit			18,780	
			229,960	
Less Drawings			12,500 ❸	217,460
Capital employed				217,460

Workings

1	**Wages and General expenses paid**	19,700	
	Less Expenses due 1 Jan. 2000	(460)	
	Add Expenses prepaid 31 Dec 2000	380	19,620
2	**Commission received**	760	
	Add commission due	340	1,100
3	**Capital at 1 January 2000**		
	Assets		
	Buildings	180,000	
	Delivery vans	26,000	
	Cash	740	
	Stock	8,700	
	Debtors	3,400	218,840
	Less Liabilities		
	Creditors	7,200	
	Expenses due	460	7,660
	Capital at 1 January 2000		211,180

New Presentation of Cash Flow as required for Statements relating to periods from 3/3/1997

Question 7- Cash Flow Statement

(a) 30

Reconciliation of Operating Profit to net cash flow from operating activities:

	£
Operating profit	126,000 ❸
Depreciation	6,000 ❻
Increase in Stock	(33,000) ❻
Increase in Debtors	(9,000) ❻
Decrease in Creditors	(7,000) ❻
Net Cash inflow from operating activities	83,000 ❸

(b) Cash Flow Statement of Jackson Ltd for the year ended 31/12/2000 70

		£
Operating Activities ❷		
Net cash inflow from Operating activities		83,000 ❺
Return on investments and servicing of finance ❷		
Interest paid		(8,000) ❽
Taxation ❷		
Tax paid		(20,000) ❽
Capital expenditure and Financial Investment ❷		
Purchase of fixed assets		(100,000) ❽
Equity dividends paid		
Dividends paid		(22,000) ❽
Net cash outflow before liquid resources and financing		(67,000)
Financing ❷		
Issue of Shares	40,000 ❽	
Issue of debentures	20,000 ❽	
Net cash inflow from financing		60,000
Decrease in Cash ❸		(7,000)

Reconciliation of net cash to movement in net debt

Decrease in cash during period	(7,000) ❶
Cash received from issue of debentures	(20,000) ❶
Change in net debt	(27,000)
Net debt at 1/1/2000	(65,000) ❶
Net debt at 31/12/2000	(92,000) ❶

Old Presentation of Cash Flow Statement on next page

Question 7 – Cash Flow Statement

(a) **30**

Reconciliation of Operating Profit to net cash flow from operating activities:

	£
Operating profit	126,000 ❸
Depreciation	6,000 ❻
Increase in Stock	(33,000) ❻
Increase in Debtors	(9,000) ❻
Decrease in Creditors	(7,000) ❻
Net Cash inflow from operating activities	83,000 ❸

(b) **70**

Cash Flow Statement of Jackson Ltd for the year ended 31/12/2000

		£
Operating Activities ❷		
Net cash inflow from Operating activities		83,000 ❺
Return on investment ❷		
Interest paid	(8,000) ❽	
Dividends paid	(22,000) ❽	
Net cash outflow from return on investment		(30,000)
Taxation ❷		
Tax paid	(20,000)	
Net cash outflow from taxation		(20,000) ❽
Investing activities ❷		
Purchase of fixed assets	(100,000)	
Net cash outflow from investing activities		(100,000) ❽
Net cash outflow before financing ❹		(67,000)
Financing ❷		
Issue of Shares	40,000 ❽	
Issue of debentures	20,000 ❽	
Net cash inflow from financing		60,000
Decrease in Cash ❸		(7,000)

Question 8 – Absorption Costing

80

(a) Overhead absorption rate per machine hour

Machine hour rate = $\frac{\text{Budgeted factory overheads}}{\text{Budgeted machine hours}} = \frac{77{,}000}{14{,}000}$ = **£5.50** ⓯

(b) Overhead absorption rates per direct labour hour

Direct labour hour rate = $\frac{\text{Budgeted factory overheads}}{\text{Budgeted direct lab. hours}} = \frac{77{,}000}{11{,}000}$ = **£7** ⓯

(c) Total Cost of Order no – 1342

		Machine Hour Rate
Direct Material		9,000 ❷
Direct Labour **(Note 1)**		960 ❺
Factory Overheads	(240 Mch. hrs @ £5.50)	1,320 ❺
Total Cost		**11,280** ❸

(d) Total Cost of Order no - 1342

		Direct Labour Hour Rate
Direct Material		9,000 ❷
Direct Labour **(Note 1)**		960 ❺
Factory Overheads	(160 dir lab hrs @ £7)	1,120 ❺
Total Cost		**11,080** ❸

(e)

			£	£
Total Cost			11,280	11,080
Mark-up	=	40% of cost	4,512	4,432
Selling Price	=		**15,792** ❿	**15,512** ❿

Note 1

$\frac{\text{Budgeted Direct Labour}}{\text{Budgeted Direct labour hours}} = \frac{66{,}000}{11{,}000 \text{ hours}}$ = £6 per hour

Direct labour cost of Order no - 1342 = 160 hours @ £6 per hour = £960

Question 9 - Budgeting

(a) 70

Cash Budget

		Mar	April	May	June	July
Receipts						
Debtors	- January	❹ 62,000				
	- February		❹ 54,000			
	- March			❹ 55,000		
	- April				❹ 75,000	
	- May					❹ 94,000
		62,000	**54,000**	**55,000**	**75,000**	**94,000**
Payments						
Creditors	- February	❹ 46,000				
	- March		❹ 42,000			
	- April			❻ 66,000		
	- May				❷ 50,000	
	- June					❹ 55,000
	- Expenses	❷ 12,000	❷ 9,000	❷ 11,000	❷ 13,000	❷ 14,000
		58,000	**51,000**	**77,000**	**63,000**	**69,000**
Net monthly cash flow		❷ 4,000	❷ 3,000	❷ (22,000)	❷ 12,000	❷ 25,000
Opening bank balance		❷ (18,000)	❶ (14,000)	❶ (11,000)	❶ (33,000)	❶ (21,000)
Closing bank balance		**(14,000)**	**(11,000)**	**(33,000)**	**(21,000)**	**4,000** ❹

(b) 10

His monthly surplus/deficit ❺
He can predict overdraft requirements over the period ❺
No overdraft required by the end of 5 months