# Coimisiún na Scrúduithe Stáit
State Examinations Commission

# Leaving Certificate 2014

# Marking Scheme

# Accounting

# Higher Level

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

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

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.

# LEAVING CERTIFICATE ACCOUNTING - 2014

## Higher Level Marking Scheme

### INTRODUCTION

The solutions and marking scheme for Accounting Higher Level are attached.

Marks allocated to each line/figure are highlighted and shown in brackets like this alongside. **[6]**

These marks are then totalled for each section/page and shown in a square like this 40

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is not as 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 (e.g. 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 a calculation in section (a) is incorrect, allowance is made for this in

# Accounting – Higher Level 2014

## Question 1

**(a)**

**75**

**Trading and Profit and Loss Account for the year ending 31/12/2013** **[1]**

| | | € | | € | | € | |
|---|---|---|---|---|---|---|---|
| Sales | | | | | | 695,000 | **[2]** |
| Less Cost of Sales | | | | | | | |
| Stock 1/1/2013 | | | | 64,200 | **[2]** | | |
| Add Purchases | **W1** | | | 503,250 | **[12]** | | |
| | | | | 567,450 | | | |
| Less Stock 31/12/2013 | **W2** | | | (84,000) | **[5]** | (483,450) | |
| **Gross Profit** | | | | | | 211,550 | |
| **Less Expenses** | | | | | | | |
| **Administration** | | | | | | | |
| Patent written off | **W3** | 8,230 | **[5]** | | | | |
| Salaries and General expenses | **W4** | 87,400 | **[9]** | | | | |
| Rent | | 10,000 | **[2]** | | | | |
| Insurance | | 5,750 | **[2]** | | | | |
| Depreciation – Buildings | **W5** | 12,800 | **[3]** | 124,180 | | | |
| **Selling and Distribution** | | | | | | | |
| Advertising | | 2,500 | **[2]** | | | | |
| Loss on sale of van | **W6** | 14,000 | **[6]** | | | | |
| Depreciation –Delivery van | **W7** | 9,450 | **[5]** | | | | |
| Discount | | 1,800 | **[2]** | 27,750 | | (151,930) | |
| | | | | | | 59,620 | |
| **Add Operating Income** | | | | | | | |
| Bad debt recovered | | | | | | 800 | **[2]** |
| | | | | | | 60,420 | |
| Add Investment Income | | | | | | 2,250 | **[4]** |
| | | | | | | 62,670 | |
| Less Mortgage Interest | **W8** | | | | | (8,325) | **[5]** |
| **Net Profit** | | | | | | 54,345 | **[6]** |

(b)

**45**

## Balance Sheet as at 31/12/2013

| | | Cost | | Acc. Dep. | | Net | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **Intangible Fixed Assets** | | € | | € | | € | | € | |
| Patents | | | | | | | | 32,920 | [4] |
| | | | | | | | | | |
| **Tangible Fixed Assets** | | | | | | | | | |
| Buildings | **W9** | 720,000 | [1] | | | 720,000 | | | |
| Delivery Vans | **W10 & 11** | 96,000 | [2] | 11,450 | [3] | 84,550 | | | |
| | | 816,000 | | 11,450 | | 804,550 | | 804,550 | |
| **Financial Assets** | | | | | | | | | |
| 8% Investments | | | | | | | | 100,000 | [2] |
| | | | | | | | | 937,470 | |
| **Current Assets** | | | | | | | | | |
| Stock | | | | 84,000 | [2] | | | | |
| Debtors | **W12** | | | 48,600 | [2] | | | | |
| Investment income due | **W13** | | | 1,500 | [3] | 134,100 | | | |
| | | | | | | | | | |
| **Creditors: amounts falling due within one year** | | | | | | | | | |
| Creditors | **W14** | | | 115,250 | [6] | | | | |
| Bank | **W15** | | | 15,600 | [3] | | | | |
| VAT | | | | 4,200 | [2] | | | | |
| PRSI/USC | **W16** | | | 1,800 | [2] | | | | |
| Mortgage interest due | | | | 9,000 | [2] | (145,850) | | (11,750) | |
| | | | | | | | | 925,720 | |
| | | | | | | | | | |
| **Financed by** | | | | | | | | | |
| **Creditors: amounts falling due after more than one year** | | | | | [1] | | | | |
| Mortgage | | | | | | | | 200,000 | [2] |
| | | | | | | | | | |
| **Capital and Reserves** | | | | | | | | | |
| Capital | | | | | | 530,000 | [1] | | |
| Revaluation Reserve | **W18** | | | | | 187,800 | [3] | | |
| Net Profit | | | | | | 54,345 | | | |
| | | | | | | 772,145 | | | |
| Drawings | **W17** | | | | | (46,425) | [4] | 725,720 | |
| **Capital Employed** | | | | | | | | 925,720 | |

## Question 1 - workings

| | | | |
|---|---|---|---|
| 1. | Purchases | 530,400 + 4,000 – 30,000 +1,250 – 2,400 | 503,250 |
| 2. | Closing stock | 80,000 + 4,000 | 84,000 |
| 3. | Patent (Profit + Loss a/c) | (40,400 + 750) * 5 | 8,230 |
| | Patents (Balance Sheet) | (40,400 + 750) – 8,230 | 32,920 |
| 4. | Salaries and general expenses | 90,000 – [2,000 + 600] | 87,400 |
| 5. | Depreciation on Buildings | 2% x €640,000 | 12,800 |
| 6. | Loss on sale of van | 40,000 – 16,000 – 10,000 | 14,000 |
| 7. | Depreciation Delivery vans<br>9,000 + 450<br>2,250 + 7,200<br>5,000 + 1,000 + 3,450 | 5,000 + 1,000 + 3,450 | 9,450 |
| 8. | Mortgage Interest<br>1,500 + 600 + 9,000 – 2,775 | 8,400 + 2,700 – 2,775<br>8,325 | |
| 9. | Buildings | 640,000 + 80,000 | 720,000 |
| 10. | Delivery vans at cost | 90,000 + 46,000 – 40,000 | 96,000 |
| 11. | Provision for Dep. – vans | 12,000 + 9,450 – 10,000 | 11,450 |
| 12. | Debtors | 50,000 - 1,400 | 48,600 |
| 13. | Investment Income due | 2,250 – 750 | 1,500 |
| 14. | Creditors | 110,000 + 4,000 + 1,250 | 115,250 |
| 15. | Bank | 16,400 – 800 | 15,600 |
| 16. | PAYE/PRSI | 3,800 – 2,000 | 1,800 |
| 17. | Drawings | 41,250 + 2,775 + 2,400 | 46,425 |
| 18. | Revaluation Reserve | 80,000 + 95,000 + 12,800 | 187,800 |

**Penalties**: Deduction of 2 x 1 mark for the omission of two expense headings in Profit & Loss Account.

**Question 2**

**(a)** **51**

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

| | € | |
|---|---|---|
| Operating Profit | 185,000 | [2] |
| Depreciation charge for the year | 60,000 | [3] |
| Loss on sale of machinery | 25,000 | [5] |
| **Increase** in stock | (23,000) | [2] |
| **Increase** in debtors | (8,000) | [2] |
| **Increase** in creditors | 5,000 | [2] |
| Net cash inflow from operating activities | 244,000 | [2] |

### CASH FLOW STATEMENT of Doyle plc for the year ended 31/12/2013

| | | € | | € | |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net cash inflow from operating activities | | | | 244,000 | |
| **Returns on investments and servicing of finance** | [1] | | | | |
| Interest on debentures paid | | | | (13,000) | [3] |
| **Taxation** | | | | | |
| Corporation tax paid | | | | (40,000) | [3] |
| **Capital expenditure and financial investment** | [1] | | | | |
| Investments | | (20,000) | [2] | | |
| Payment to acquire tangible fixed assets | | (75,000) | [2] | | |
| Receipts from sale of fixed assets | | 30,000 | [2] | (65,000) | |
| **Equity dividends paid** | [1] | | | | |
| Dividends paid during the year | | | | (60,000) | [1] |
| Net cash **inflow** before liquid resources and financing | | | | 66,000 | [2] |
| **Management of liquid resources** | [1] | | | | |
| Purchase of Government Securities | | | | (20,000) | [1] |
| **Financing** | [1] | | | | |
| Repayment of debentures | | (80,000) | [1] | | |
| Receipt from issue of shares | | 20,000 | [1] | | |
| Receipt from share premium | | 4,000 | [1] | (56,000) | |
| **Decrease in cash** | | | | **(10,000)** | [4] |

### Reconciliation of net cash flow to movement in net debt

| | | |
|---|---|---|
| Decrease in cash during the period | (10,000) | [1] |
| Cash used to purchase Government Securities | 20,000 | [1] |
| Cash used to purchase debentures | 80,000 | [1] |
| Change in net debt | 90,000 | |
| Net debt 1/1/2013 | (232,000) | [1] |
| Net debt 31/12/2013 | (142,000) | [1] |

**(b)**

**9**

**(i)** **[6]**

Doyle plc has generated €59,000 [€244,000 - €185,000] more cash inflow during the year because:
Depreciation €60,000 and loss on sale of machinery €25,000 reduce profit but had no affect on cash inflow.
An increase in creditors during the year increases cash inflow by €5,000 but has nil affect on profit.
The increase in debtors and stock during the year of €8,000 and €23,000 respectively also contributed to a reduction in net cash inflow but have no effect on profits.

**(ii)** **[3]**

**Accounting Obligations of a large public company**
Provide a full set of accounts, balance sheet and a cash flow statement to shareholders at AGM
File/register a full set of accounts and balance sheet with the registrar of companies
Provide explanatory notes to these accounts
Must have its accounts audited
They must also present an annual report to the company shareholders at its AGM. This report should include a director's report, an auditor's report as well as the published accounts.

## Question 2 – workings

**Depreciation**

| | |
|---|---|
| Depreciation provision on machinery 1/1/2013 | 250,000 |
| Add Depreciation charge for the year on machinery | 40,000 |
| | 290,000 |
| Less Depreciation provision on machinery 31/12/2013 | 270,000 |
| Depreciation on disposed machine | **20,000** |

**Loss on disposal of fixed assets**

| | |
|---|---|
| Cost of machine disposed - [495,000 – 420,000] | 75,000 |
| Depreciation on disposed machine | 20,000 |
| Book value | 55,000 |
| Less receipts from sale | 30,000 |
| Loss on disposal | **(25,000)** |

**Taxation**

| | |
|---|---|
| Taxation due 31/12/2012 | 75,000 |
| Taxation for year 2013 | 45,000 |
| | 120,000 |
| Less taxation due 31/12/2013 | (80,000) |
| Tax paid | **40,000** |

**Interest**

| | |
|---|---|
| Interest due 31/12/2012 | -- |
| Interest for year 2013 | 16,000 |
| | 16,000 |
| Less interest due 31/12/2013 | (3,000) |
| Interest paid | **13,000** |

## Question 3

**(a)**

### Profit and Loss Account of Danner plc for the year ended 31/12/2013

| | € | |
|---|---|---|
| Turnover | 1,770,000 | [2] |
| Cost of sales | 1,004,500 | [4] |
| Gross profit | 765,500 | |
| Distribution costs | (311,750) | [4] |
| Administrative expenses | (309,250) | [6] |
| | 144,500 | |
| Other Operating income | 44,000 | [3] |
| Operating profit | 188,500 | |
| Investment income | 3,500 | [2] |
| Profit on sale of land | 20,000 | [2] |
| | 212,000 | |
| Interest payable | (17,500) | [2] |
| Profit on ordinary activities before taxation [1] | 194,500 | |
| Taxation | (90,000) | [1] |
| | 104,500 | |
| Dividends paid | (22,000) | [1] |
| | 82,500 | |
| Profit brought forward at 1/1/2013 | 41,000 | [2] |
| Profit carried forward at 31/12/2013 | 123,500 | [6] |

**Workings**

| | | | |
|---|---|---|---|
| 1. | Cost of Sales (82,000+1,000,500 – 90,000 +12,000) | | 1,004,500 |
| 2. | Distribution costs 260,000 + 3,750 + 48,000 | = | 311,750 |
| 3. | Administrative expenses 230,000 + 50,000 +15,000 + 3,000 + 11,250 | = | 309,250 |
| 4. | Other Operating income 30,000 + 3,000 + 11,000 | | 44,000 |
| 5. | Investment income 2,000 + 1,500 | = | 3,500 |
| 6. | Dep. Buildings 2% x 750,000 = 15,000. 25% = 3,750. 75% = 11,250 | | |
| 7. | Dep. Vehicles 20% x 240,000 | = | 48,000 |

**9**

**(b)**

**(i)** **[3]**

**A Director's Report** must include the following:

- The amount to be transferred to reserves.
- A report of any changes in the nature of the company's business during the year.
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company's subsidiaries and affiliates.
- Evaluation of company's compliance with its safety statement.
- Details of directors' share holdings and dealings during the year.

**(ii)** **[6]**

**Exceptional Item**: This is a material item of significant size. It is a profit **or** loss that must be shown separately in the profit and loss account because of size.
Example: Profit or loss on sale of fixed asset or large bad debt.

## Notes to the Accounts

**15**

1. **Accounting policy notes**. **[4]**

Tangible Fixed Assets

Buildings were re-valued at the end of 2013 and have been included in the accounts at their re-valued amount.

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 |
| Delivery vans | 20% of cost |
| Stocks - | Stocks are valued on a first in first out basis at the lower of cost and net realisable value. |

2. **Operating Profit** **[2]**

The operating profit is arrived at after charging:

| | |
|---|---|
| Depreciation on tangible fixed assets | 63,000 |
| Patent amortised | 12,000 |
| Directors remuneration | 50,000 |
| Auditors fees | 15,000 |

3 **Financial Fixed Assets** **[2]**

| | **1/1/2013** | **31/12/2013** |
|---|---|---|
| Quoted investments | 250,000 | 250,000 |
| Unquoted Investments | 70,000 | 70,000 |
| | 280,000 | 280,000 |

The market value of the quoted investments on 31/12/2013 was €110,000.
The director's valuation of the unquoted investments on 31/12/2013 was €60,000.

4 **Tangible Fixed Assets** **[7]**

| | **Land & Buildings** | **Vehicles cost** | **Total** |
|---|---|---|---|
| **Assets** | | | |
| Value 1/1/2013 | 860,000 | 240,000 | 1,100,000 |
| Disposal | (110,000) | ---- | (110,000) |
| Revaluation surplus | 150,000 | ---- | 150,000 |
| Value at 31/12/2013 | 900,000 | 240,000 | 1,140,000 |
| **Depreciation** | | | |
| Balance 1/1/2013 | 81,000 | 25,000 | 106,000 |
| Depreciation charge for the year | 15,000 | 48,000 | 63,000 |
| | 96,000 | 73,000 | 169,000 |
| Transfer on revaluation | (96,000) | ---- | (96,000) |
| Depreciation | ---- | 73,000 | 73,000 |
| | | | |
| Net book value 1/1/2013 | 779,000 | 215,000 | 994,000 |
| Net book value 31/12/2013 | 900,000 | 167,000 | 1,067,000 |

## Question 4

### (a)

**24**

**Adjusted Creditors Control Account**

| | € | | | € | |
|---|---|---|---|---|---|
| Balance b/d | 490 | **[2]** | Balance b/d | 63,552 | **[1]** |
| Credit Note (vi) | 313 | **[4]** | Discount disallowed (ii) | 330 | **[4]** |
| Balance c/d | 63,819 | | Interest (iii) | 50 | **[4]** |
| | | | Purchases (iv) | 180 | **[4]** |
| | | | Restocking charge (v) | 20 | **[4]** |
| | | | Balance c/d | 490 | **[1]** |
| | 64,622 | | | 64,622 | |
| Balance b/d | 490 | | Balance b/d | 63,819 | |

### (b)

**28**

**Schedule of Creditors Accounts Balances**

| | | | € | | € | |
|---|---|---|---|---|---|---|
| Balance as per list of Creditors | | | | | 61,892 | **[4]** |
| **Add** | Cash Purchases | (i) | 890 | **[3]** | | |
| | Discount disallowed | (ii) | 330 | **[4]** | | |
| | Interest | (iii) | 61 | **[4]** | | |
| | Invoice | (iv) | 860 | **[4]** | 2,141 | |
| | | | | | 64,033 | |
| **Deduct** | Credit Note adjustment | (v) | 360 | **[4]** | | |
| | Credit Note | (vi) | 344 | **[4]** | (704) | |
| Net Balance as per adjusted Control Account | | | | | 63,329 | **[1]** |

### (c)

**8**

**(i) Contra Item** **[4]**

A contra item is an offset of a debtor against a creditor where the debtor and the creditor are the same person/business.

**(ii) Opening Balance €490 could arise as a result of**: **[4]**

- A full payment of a debt followed by a credit note (returns or reduction) or full payment followed by discount.
- Over payment of a debt.

## Question 5

**(a)**

**50**

**(i) Cash Sales**

| | | | | | |
|---|---|---|---|---|---|
| <u>Debtors x 12</u> = 2 Credit sales | = | <u>43,000 x 12</u> | | | |
| Credit sales | | 2 | | | |
| Credit Sales | = | €258,000 | | | |
| Cash sales | = | €950,000 – €258,000 | = | **€692,000** | **[12]** |

**(ii) Return on Capital Employed**

| | | | | | |
|---|---|---|---|---|---|
| <u>Profit before interest x 100</u> | = | <u>€65,000 x 100</u> | = | **8.21%** | **[8]** |
| Capital employed | | €792,000 | | | |

**(iii) Earnings per share**

| | | | | | |
|---|---|---|---|---|---|
| <u>Net profit after pref. dividend</u> | = | <u>€47,000 – €5,000</u> | = | **12 cent** | **[10]** |
| Number of ordinary shares | | €350,000 | | | |

**(iv) Dividend Yield**

| | | | | | |
|---|---|---|---|---|---|
| <u>Dividend per share x 100</u> | = | <u>10c x 100</u> | = | **7.69%** | **[12]** |
| Market Price | | 130c | | | |

**(v) Period to recoup price**

| | | | | | |
|---|---|---|---|---|---|
| <u>Market price</u> | = | <u>130</u> | = | **13 years** | **[8]** |
| Dividend per share | | 10c | | | |

**(b)**

40

## Bank Loan Application

**Profitability [6]**
The company is profitable but less profitable in 2013 than in 2012. The ROCE has disimproved from 10.1% to 8.21%. This is less than the interest of 9% to be charged on the loan. The manager would have to question why the company would borrow at 9% if the ROCE in the company was only 8.21%.

**Liquidity [6]**
The acid test of 0.45:1 is very poor. It has worsened from 0.90:1 in 2012. Shannon plc has a serious liquidity problem. It has only 45c of liquid assets available for each €1 owed in the short term. The liquidity problem will worsen if the loan is granted. The company will have difficulty in making interest repayments if the current trend continues. Annual interest on loan would be €31,500

**Gearing [6]**
The company is just above the neutral gearing point at 50.5% [1.02 to 1] and now can be termed highly geared. This gearing has become less favourable after rising from 48% to 50.5%. The gearing will get worse if a loan of €350,000 is given. The gearing with the loan would rise to 65.67% [1.91 to 1].
The interest cover has disimproved from 4 times to 3.61 times. This cover will get much worse if a loan of €350,000 is given.

**Security [6]**
The fixed assets are valued at cost €790,000 but one should question the depreciation policy to ascertain the real value of the tangible assets. One should also question the value of the intangible assets. The investments have a market value of €200,000 but cost €210,000. Already, €300,000 is committed to securing the debentures. The balance sheet value of tangible fixed assets is €480,000 leaving €180,000 after security committed to debentures. The security is not adequate.

**Dividend Cover/Policy [5]**
The dividend cover is 1.2 times. This has worsened from 1.25 times in 2012. The dividend cover is low and will get worse. Not enough of the company's earnings are being retained. This would jeopardise repayment of the loan.

**Sector [5]**
Shannon plc is in the Construction Industry. There is grave concern about the industry in the current economic climate and prospects are not encouraging in the medium term. Property developers are finding it hard to sell properties and this has a knock on effect on the building industry and building has almost come to a standstill. In the short term prospects are not good due to lack of finance
Long term prospects are better as demand is/will be greater than supply.

**Purpose of Loan [4]**
The loan is required for future expansion. This expansion should be more specific. It is questionable whether Shannon plc could generate extra income to service the loan.

**Conclusion [2]**
The bank manager **should not grant** the loan based on the above figures. The company has a falling profit and a serious liquidity problem. The company is highly geared making it vulnerable to outside investors. It has a very generous dividend policy and not enough profits are being retained in the business.

## (c) Liquidity and Solvency

**10**

**Liquidity** measures the ability of the company to pay its short term debts as they fall due. The acid test ratio is a good indicator of liquidity as it includes only liquid assets i.e. cash and debtors. [5]

**Solvency** is the ability of a company to pay all of its debts as they fall due for payment (long term). Solvency is the most important indicator of a business's ability to survive in the long term. A business is solvent if its total assets exceed its outside liabilities. Debt to equity or total debt to total assets are good guides. [5]

## Question 6

**(a)** **18**

**Statement of Capital and Reserves on 1/1/2013**

| | | € | | € | |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Buildings and grounds | (620,000 – 37,200) | 582,800 | [2] | | |
| Equipment | (70,000 – 21,000) | 49,000 | [2] | | |
| Vehicles | (90,000 – 54,000) | 36,000 | [2] | | |
| 5% Investments | | 40,000 | [1] | | |
| Stock in shop | | 3,400 | [1] | | |
| Stock of oil | | 1,900 | [1] | | |
| Contract cleaning prepaid | | 400 | [1] | | |
| Cash at bank | | 6,000 | [1] | 719,500 | |
| **Liabilities** | | | | | |
| Creditors for supplies | | 1,600 | [1] | | |
| Clients' fees paid in advance | | 6,000 | [1] | | |
| Loan | | 50,000 | [1] | | |
| Interest on loan (12 months @ 400 per month) | | 4,800 | [2] | | |
| Issued Capital | | 450,000 | [1] | (512,400) | |
| **Reserves 1/1/2013** | | | | **207,100** | [1] |

**(b)** **10**

**Shop Profit and Loss Account for the year ended 31/12/2013**

| | | | | | |
|---|---|---|---|---|---|
| Shop receipts | | | | 45,000 | [1] |
| **Less** Cost of goods sold (3,400 + 28,000 – 1,400) | | | | (30,000) | [5] |
| | | | | 15,000 | |
| **Less expenses** | | | | | |
| Light and heat | | 400 | [1] | | |
| Insurance | | 800 | [1] | | |
| Telephone | | 500 | [1] | | |
| Wages and salaries | (40% x 22,000) | 8,800 | [1] | (10,500) | |
| Profit from shop | | | | **4,500** | |

**(c)** **36**

**Profit and Loss Account for year ended 31/12/2013**

| | | € | | € | |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Profit from shop | | 4,500 | | | |
| Investment income received | | 2,000 | [1] | | |
| Clients' fees | | 330,800 | [5] | 337,300 | |
| **Less Expenses** | | | | | |
| Wages and salaries | (85,400 – 8,800) | 76,600 | [1] | | |
| Insurance | (6,800 – 800) | 6,000 | [1] | | |
| Light and heat | | 4,660 | [5] | | |
| Purchases – supplies | | 36,300 | [3] | | |
| Loan interest | | 1,200 | [1] | | |
| Laundry | | 2,500 | [1] | | |
| Telephone (1,600 – 500) | | 1,100 | [1] | | |
| Depreciation – | Buildings | 17,000 | [1] | | |
| | Equipment | 8,500 | [1] | | |
| | Vehicles | 19,900 | [3] | | |
| Loss on sale of vehicle | | 3,000 | [2] | | |
| Contract cleaning | | 3,500 | [3] | (180,260) | |
| Net Profit for year | | | | 157,040 | [6] |
| Add Reserves 1/1/2013 | | | | 207,100 | [1] |
| Profit and Loss balance 31/12/2013 | | | | 364,140 | |

**(d)** **30**

**Balance sheet as at 31/12/2013**

| | Cost | | Depreciation | | Net | |
|---|---|---|---|---|---|---|
| **Fixed Assets** | € | | € | | € | |
| Buildings and grounds | 900,000 | | - | | 900,000 | [1] |
| Equipment (70,000 + 15,000) | 85,000 | [2] | 29,500 | [2] | 55,500 | |
| Vehicles | 109,000 | [1] | 45,900 | [3] | 63,100 | |
| | 1,094,000 | | 75,400 | | 1,018,600 | |
| Investments | | | | | 40,000 | [2] |
| | | | | | 1,058,600 | |
| **Current Assets** | | | | | | |
| Investment income due | 800 | [2] | | | | |
| Closing stock – shop | 1,400 | [1] | | | | |
| oil | 600 | [1] | | | | |
| Contract cleaning prepaid | 500 | [1] | | | | |
| Clients' fees due | 800 | [1] | 4,100 | | | |
| **Less Creditors: amounts falling due within 1 year** | | | | | | |
| Electricity due | 360 | [1] | | | | |
| Clients' advance deposits | 6,500 | [1] | | | | |
| Bank | 135,000 | [1] | | | | |
| Creditors for supplies | 2,500 | [1] | (144,360) | | (140,260) | |
| | | | | | 918,340 | |
| **Financed by** | | | | | | |
| **Share Capital and Reserves** | **Authorised** | | **Issued** | | | |
| Ordinary Shares | 600,000 | [1] | 450,000 | [1] | | [2] |
| Revaluation Reserve [54,200 + 50,000] | | | 104,200 | [3] | | |
| Profit and Loss balance | | | 364,140 | [2] | 918,340 | |
| | | | | | 918,340 | |

**(e)** **6**

The Centre is profitable and is generating enough cash to clear the overdraft without taking any remedial action that could have negative effects on profitability.
The proposed increase of 15% in clients' fees would raise only €49,620 based on this year's figures. This is only one third of the overdraft of €135,000 and so would not be adequate. This increase in fees could however cause a drop in membership with loss of income.
Based on this year's figures the overdraft will have been cleared by the end of next year without taking any remedial action now. The Centre this year has repaid a loan of €50,000 plus interest €6,000 and had capital expenditure of €295,000 (Equipment €15,000, Extension €230,000, Vehicles €50,000). This is all non-recurring expenditure.

The Centre had a surplus of €157,040 this year and is clearly being run profitably and will continue to be profitable. Its return on capital employed is 17.1%.

**Workings**

| | | | |
|---|---|---|---|
| **Clients' fees** | Amount received | 330,500 | |
| | Advance deposits | 6,000 | |
| | Fees due | 800 | |
| | Less fees prepaid | (6,500) | 330,800 |
| **Light and heat** | Amount paid | 3,400 | |
| | Stock oil 1/1/2013 | 1,900 | |
| | Electricity due | 360 | |
| | Stock oil 31/12/2013 | (600) | |
| | Charge to shop | (400) | 4,660 |
| **Purchases** | 35,400 + 2,500 – 1,600 | | 36,300 |
| **Contract cleaning** | 3,600 + 400 – 500 | | 3,500 |

## Question 7

### (a)

**54**

| | | Dr. € | Cr. € |
|---|---|---|---|
| **(i)** | Debtors a/c | 830 [2] | |
| | Bank a/c | | 780 [2] |
| | Discount allowed a/c - disallowed | | 50 [2] |
| | Bank a/c | 83 [2] | |
| | Bad debts a/c | 747 [2] | |
| | Debtors a/c | | 830 [2] |
| | Being recording of dishonoured cheque received by Cagney and the payment 10 cent in the €1 as a first and final payment of debt [1] | | |
| **(ii)** | Purchases returns a/c | 3,500 [2] | |
| | Creditors a/c | 11,500 [2] | |
| | Suspense a/c | | 15,000 [3] |
| | Being recording of return of goods and credit note incorporating a restocking charge. [1] | | |
| **(iii)** | Rent a/c - (P&L) | 3,408 [2] | |
| | Debtors for Rent a/c (Balance Sheet) | 852 [2] | |
| | Capital a/c | | 4,260 [2] |
| | Being recording of private funds used to pay twelve months rent for the current year and three months rent prepaid. [1] | | |
| **(iv)** | Sales commission a/c | 3,000 [2] | |
| | Creditors (advertising) a/c | 3,250 [2] | |
| | Capital a/c | | 6,000 [2] |
| | Discount received a/c | | 250 [2] |
| | Being recording of capital introduced used for the purpose of clearing a debt and payment of commission [1] | | |
| **(v)** | Vehicles a/c | 8,800 [2] | |
| | Capital a/c | | 8,800 [2] |
| | Drawings a/c | 800 [3] | |
| | Loss on transaction(disposal) – P & L a/c | 500 [3] | |
| | Suspense a/c | 800 [3] | |
| | Equipment a/c | | 2,100 [3] |
| | Being recording of a private motor car given to the business by Cagney and freezer taken as part payment [1] | | |

### (b)

**6**

**Suspense Account**

| | | | |
|---|---|---|---|
| Original difference | 14,200 [2] | Creditors/ purchases returns(ii) | 15,000 [2] |
| Equipment (v) | 800 [2] | | |
| | 15,000 | | 15,000 |

**(c)** **14**

### Statement of Corrected Net Profit

| | | € | € |
|---|---|---|---|
| Original Net Profit as per books | | | 87,200 |
| **Add** | Discount disallowed (i) | 50 **[1]** | |
| | Discount received (iv) | 250 **[1]** | 300 |
| | | | 87,500 |
| **Less** | Bad debts (i) | 747 **[2]** | |
| | Purchases Returns (ii) | 3,500 **[1]** | |
| | Loss on Freezer transaction (v) | 500 **[2]** | |
| | Rent a/c (iii) | 3,408 **[1]** | |
| | Sales commission (iv) | 3,000 **[1]** | (11,155) |
| **Correct Net Profit** | | | **76,345** **[5]** |

**(d)** **20**

### Balance Sheet as at 31/12/2013

| | | € | € | € |
|---|---|---|---|---|
| **Fixed Assets** | | | | |
| Premises | | | 650,000 **[1]** | |
| Motor vehicles | (72,000 + 8,800) | | 80,800 **[2]** | |
| Equipment | (35,000 – 2,100) | | 32,900 **[2]** | 763,700 |
| **Current Assets** | | | | |
| Stock | (185,400 – 14,200) | 171,200 **[1]** | | |
| Debtors | (36,300 + 830 – 830) | 36,300 **[1]** | | |
| Cash | | 1,500 **[1]** | | |
| Rent prepaid | | 852 **[1]** | 209,852 | |
| **Less Creditors: amounts falling due within 1 year** | | | | |
| Creditors | (58,500 – 11,500 – 3,250) | 43,750 **[2]** | | |
| Bank | (32,000 + 780 – 83) | 32,697 **[2]** | (76,447) | 133,405 |
| | | | | 897,105 |
| **Financed by** | | | | |
| Capital | (810,000 + 4,260 + 8,800 + 6,000) | | 829,060 **[3]** | |
| Corrected Net Profit | | | 76,345 **[1]** | **[2]** |
| | | | 905,405 | |
| Less Drawings | (7,500 + 800) | | (8,300) **[1]** | 897,105 |
| | | | | 897,105 |

**(e)** **6**

Errors in figures and addition

Posting only one side of the double entry

Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account.

**Question 8**

**(a)**

**58**

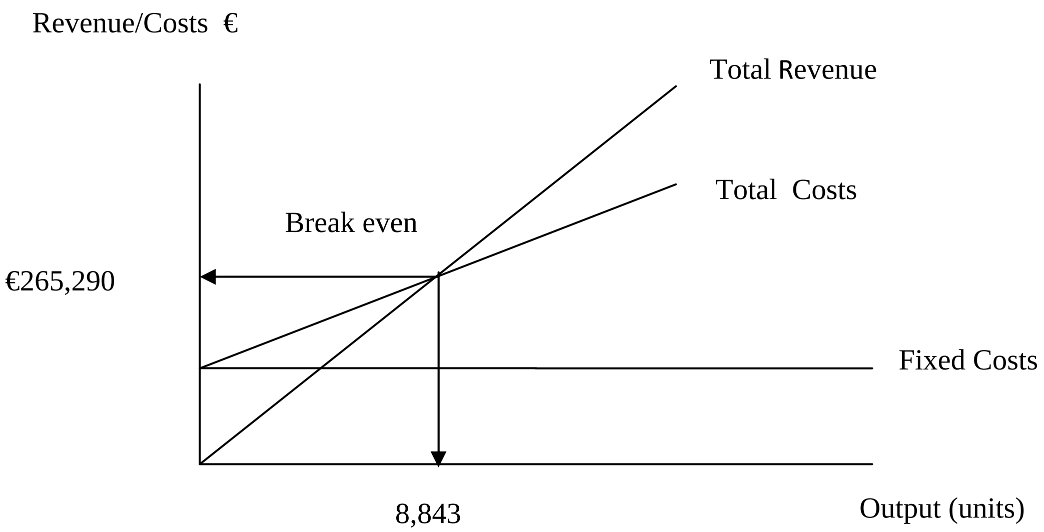
| | € | € | € per unit |
|---|---|---|---|
| Sales (16,000 units) | | 480,000 | 30.00 |
| Less Variable Costs | | | |
| Direct materials | 120,000 | | |
| Direct wages | 110,000 | | |
| Factory overhead | 20,000 | | |
| Administration overhead | 40,000 | (290,000) | (18.125) |
| **Contribution** | | 190,000 | 11.875 |
| Less Fixed Costs | | | |
| Factory overhead | 40,000 | | |
| Administration overhead | 65,000 | (105,000) | |
| Net Profit | | 85,000 | |

**(i)**

**Break even point** $\frac{\text{Fixed Costs}}{\text{CPU}}$ $\frac{105,000\ [3]}{11.875\ [4]}$ = [3] **8,843 units**

**Margin of safety** Sales – Break even point
[2] 16,000 – 8,843 [2] = [2] **7,157 units**

**(ii) Break even chart** [8]




**(iii) Profit from reduced selling price**

| | | € | |
|---|---|---|---|
| Sales | (19,000 x 28.50) | 541,500 | [3] |
| Less Variable costs | (19,000 x 18.125) | (344,375) | [3] |
| Contribution | | 197,125 | |
| Less Fixed costs | (105,000 + 5,000) | (110,000) | [3] |
| Profit | | 87,125 | [1] |

**(iv)** $\frac{\textbf{Fixed Costs}}{\textbf{Contribution – 20\% of S.P.}}$ $\frac{[2]\ 105,000}{[4]\ 7.875 – 5.2\ [4]}$ = [2] **39,253 units**

**(v)** **The profit they would make from Selling Price of €34**

| | | | |
|---|---|---|---|
| Sales | (17,000 x 34) | 578,000 | **[2]** |
| Less Variable costs | (17,000 x 18.125 + 1.70 +1) | (354,025) | **[6]** |
| Contribution | | 223,975 | |
| Less Fixed Costs | | (105,000) | **[2]** |
| Profit | | 118,975 | **[2]** |

**22**

**(b)**

**(i)**

### Absorption Costing

| | | | | | |
|---|---|---|---|---|---|
| Sales | (9,000 x 4) | | | 36,000 | **[1]** |
| Less production Cost (10,000 units) | | | | | |
| Direct Materials | (10,000 x €0.60) | 6,000 | **[1]** | | |
| Direct Labour | (10,000 x €0.50) | 5,000 | **[1]** | | |
| Variable Overhead | (10,000 x €0.40) | 4,000 | **[1]** | | |
| Fixed Overhead | | 4,000 | **[1]** | | |
| | | 19,000 | | | |
| Less Closing Stock (1/10 x 19,000) | | (1,900) | **[1]** | (17,100) | |
| **Profit** | | | | **18,900** | |

### Marginal Costing

| | | | | | |
|---|---|---|---|---|---|
| Sales | (9,000 x 4) | | | 36,000 | **[1]** |
| Less Production Cost (10,000 units) | | | | | |
| Direct Materials | (10,000 x 0.60) | 6,000 | **[1]** | | |
| Direct Labour | (10,000 x 0.50) | 5,000 | **[1]** | | |
| Variable Overhead | (10,000 x 0.40) | 4,000 | **[1]** | | |
| | | 15,000 | | | |
| Less Closing Stock (1/10 x 15,000) | | (1,500) | **[1]** | (13,500) | |
| **Contribution** | **[1]** | | | 22,500 | |
| Less Fixed overheads | | | | (4,000) | **[1]** |
| **Profit** | | | | **18,500** | |

**(ii)**

**[6]**

There is a difference in the profit figures because closing stock is valued differently.
Closing stock under marginal costing is valued lower than under absorption costing.
When costing a product, marginal costing does not include fixed costs whereas in absorption costing the fixed costs are included. Therefore a share of fixed costs is included in the value of stock under absorption costing and not included under marginal costing.
Under absorption costing, closing stock is valued at a 1/10 of the production cost of €19,000
Under marginal costing, closing stock is valued at a 1/10 of the variable cost of €15,000

| | | |
|---|---|---|
| **Closing Stock –** Absorption Costing | 1,900 | |
| **Closing Stock –** Marginal Costing | (1,500) | |
| Difference | | 400 |

The profit difference is 18,900 – 18,500 = **400**

**[3]**

Absorption costing should be used as it agrees with standard accounting practice and concepts and also matches costs with revenues.

**Question 9**

**80**

**(a)**

| **Sales Budget** | **Micro** | **Excel** | |
|---|---|---|---|
| Expected sales in units | 11,000 | 6,500 | |
| Expected selling price per unit | €240 | €300 | |
| Budgeted sales revenue | €2,640,000 | €1,950,000 | €4,590,000 |

| **Production budget** | | **Micro Units** | **Excel Units** |
|---|---|---|---|
| Required by sales | [6] | 11,000 | 6,500 |
| Add Closing stock (80% of opening stock) | [6] | 640 | 440 |
| | | 11,640 | 6,940 |
| Less Opening stock | [4] | (800) | (550) |
| Budgeted production in units | | **10,840** | **6,390** |

**(b) Raw Materials Purchases Budget**

| | | **Material X Kgs** | | **Material Y Kgs** | | |
|---|---|---|---|---|---|---|
| Required by production – | | | | | | |
| Micro | (10,840 x 6) | 65,040 | [2] | 54,200 | [2] | (10,840 x 5) |
| Excel | (6,390 x 4) | 25,560 | [2] | 44,730 | [2] | (6,390 x 7) |
| | | 90,600 | | 98,930 | | |
| Add Closing stock (80% of opening stock) | | 5,600 | [2] | 4,000 | [2] | |
| | | 96,200 | | 102,930 | | |
| Less Opening stock | | (7,000) | [2] | (5,000) | [2] | |
| Required purchases of raw materials in Kg’s | | 89,200 | | 97,930 | | |
| Purchase Price | | €2 | [2] | €4 | [2] | |
| **Purchase cost** | | **€178,400** | | **€391,720** | | **€570,120** |

**(c) Production Cost/Manufacturing Budget**

| **Cost of raw materials consumed:** | | **€** | **€** | |
|---|---|---|---|---|
| Opening stock of raw materials | | | | |
| X | (7,000 x 1.80) | 12,600 | | |
| Y | (5,000 x 3.60) | 18,000 | 30,600 | [4] |
| Purchases | (178,400 + 391,720) | | 570,120 | [2] |
| | | | 600,720 | |
| **Less** Closing stock of raw materials | | | | |
| X | (5,600 x 2) | 11,200 | | |
| Y | (4,000 x 4) | 16,000 | (27,200) | [4] |
| | | | 573,520 | |
| Cost of Labour | (10,840 x 7 x 12) | 910,560 | | |
| | (6,390 x 8 x 12) | 613,440 | 1,524,000 | [4] |
| Variable overheads | (10,840 x 7 x5) | 379,400 | | |
| | (6,390 x 8 x 5) | 255,600 | 635,000 | [4] |
| Fixed overheads | | | 180,400 | [2] |
| **Cost of manufacture** | | | **2,912,920** | [3] |

**(d) Budgeted Trading Account**

| | | | € | € |
|---|---|---|---|---|
| Sales of finished goods | (2,640,000 + 1,950,000) | | | 4,590,000 **[2]** |
| Opening stock of finished goods | | | | |
| Micro | (800 x 130) | 104,000 | | |
| Excel | (550 x 150) | 82,500 | 186,500 **[2]** | |
| Cost of Manufacture | | | 2,912,920 **[2]** | |
| | | | 3,099,420 | |
| **Less** Closing stock of finished goods | | | | |
| Micro | (640 x 160) | 102,400 | | |
| Excel | (440 x 184) | 80,960 | (183,360) **[4]** | (2,916,060) |
| **Gross Profit** | | | | 1,673,940 **[3]** |

**(e)**

**[6]**

**Cash Budget**
A Cash Budget is a plan or forecast that summarises the expected inflows and outflows of cash during a period. This budget is prepared by the management accountant or the financial accountant.
A cash budget will anticipate periods when the organization will have cash surpluses and will enable it to arrange short term investments.
A cash budget will anticipate periods when the organization will have cash deficits and will enable it to make arrangements for a loan or overdraft.
A cash budget will help in making sure that there is always enough funds available to meet the day to day needs of the business.

**[2]**

**Principal Budget Factor**: Apart from sales demand the principal budget factor could also be:
Availability of materials
Availability of labour
Capacity of the plant
Availability of capital

Blank Page

Blank Page