Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2006

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY, 19th JUNE 2006 – AFTERNOON 2.00 p.m. to 5.00 p.m.

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).
This section has 4 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: however, 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. Sole Trader – Final Accounts

The following trial balance was extracted from the books of K. Kelly on 31/12/2005.

	€	€
Buildings (cost €900,000)	855,000	
Delivery Vans (cost €130,000)	60,500	
6% Investments 1/6/2005	160,000	
Patents (incorporating 3 months investment income)	60,600	
5% Fixed Mortgage (including increase of €100,000 received on 1/4/2005)		300,000
Debtors and Creditors	76,500	85,500
Purchases and Sales	650,000	980,000
Stock 1/1/2005	65,700	
Commission	20,000	
Salaries and general expenses (incorporating suspense)	192,500	
Provision for Bad Debts		3,900
Discount (net)		3,600
Rent		12,000
Mortgage interest paid for the first 3 months	3,000	
Insurance	7,800	
V.A.T.		4,300
P.R.S.I.		2,500
Bank		60,800
Drawings	36,000	
Capital		735,000
	2,187,600	2,187,600

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

(i) Stock at 31/12/2005 at cost was €72,500. No record had been made in the books for 'goods in transit' on 31/12/2005. The invoice for these goods had been received showing the recommended retail selling price of €7,000 which is cost plus 25%.

(ii) Provide for depreciation on vans at the annual rate of 15% of cost from the date of purchase to the date of sale.
NOTE: On 30/4/2005 a delivery van which cost €35,000 on 31/10/2002 was traded against a new van which cost €41,000. An allowance of €15,000 was made on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction.

(iii) The suspense figure arises as a result of the posting of an incorrect figure for mortgage interest to the mortgage interest account and discount received €700 entered only in the creditors account. The correct interest was entered in the bank account.

(iv) Patents, which incorporate 3 months investment income, are to be written off over a 5 year period, commencing in 2005.

(v) Provision to be made for mortgage interest due.

(vi) A new warehouse was purchased during the year for €200,000 plus VAT 12.5%. The amount paid to the vendor was entered in the buildings account. No entry was made in the VAT account.

(vii) Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €1,200,000 on 31/12/2005.

(viii) Provision for bad debts to be adjusted to 3% of debtors.

You are required to prepare a:

(a) Trading and Profit and Loss account, for the year ended 31/12/2005. (75)
(b) Balance sheet as at 31/12/2005. (45)

(120 marks)

2. **Farm Accounts**

Among the assets and liabilities of Sean and Mary Kelly, who carry on a mixed farming business, on 1/1/2005 are: Land and Buildings at cost €290,000; Machinery at cost €60,000; Electricity due €400; Value of Cattle €60,000; Milk cheque due €2,400; Stock of Fuel €800 and Value of Sheep €18,000.

The following is a summary taken from their cheque payments and lodgements books for the year ended 31/12/2005.

Lodgements	**€**	**Cheque Payments**	**€**
Balance	2,800	Fertiliser	3,000
Milk	28,000	General farm expenses	15,000
Sheep	22,000	Dairy wages	1,500
Cattle	13,000	Sheep	19,000
Lambs	12,600	Cattle	14,000
Calves	5,900	Light heat and fuel	3,400
EU Subsidy – Sheep	3,400	Machinery	6,500
EU Subsidy – Cattle	2,500	Repairs	6,300
Wool	1,800	Veterinary fees and medicines	1,750
Forestry premium	2,100	Bank Loan plus 18 months' interest	
Six months interest from		at 6% per annum on 30/4/2005	16,350
4% Investment Bond	600	Balance	7,900
	€94,700		€94,700

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

		Cattle	Sheep
(i)	Value of Livestock on 31/12/2005 was	€62,000	€25,000

(ii) Farm produce used by the family during the year – Milk €700; Lamb €300.

(iii) General farm expenses, fertiliser and veterinary fees and medicines are to be apportioned 60% to 'Cattle and Milk' and 40% to 'Sheep'.

(iv) Other expenses are to be apportioned 80% to farm and 20% to household.

(v) Depreciation to be provided on Machinery at the rate of 10% of cost per annum.

(vi) Veterinary fees and medicines include a cheque for family health insurance for €650.

(vii) On 31/12/2005 a Milk cheque was due €1,800, Creditors for fertilisers amounted to €400 and Stock of Fuel was €900.

You are required to:

(a) Prepare a Statement of Capital for the farm on 1/1/2005. (20)

(b) Prepare an Enterprise Analysis Account for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/2005. (20)

(c) Prepare a general Profit and Loss account for the year ended 31/12/2005. (12)

(d) Give three reasons why farmers should keep a full set of accounts. (8)

(60 marks)

3. Cash Flow Statement

The following are the Balance Sheets of Butler Plc as at 31/12/2004 and 31/12/2005, together with an abridged Profit and Loss account for the year ended 31/12/2005:

Abridged Profit and Loss Account for the year ended 31/12/2005		**€**
Operating profit		140,000
Interest for year		(8,000)
Profit before taxation		132,000
Taxation for year		(45,000)
Profit after taxation		87,000
Dividends - Interim	21,000	
- Proposed	45,000	(66,000)
Retained profits for the year		21,000
Retained profits on 1/12/2005		191,000
Retained profits on 31/12/2005		212,000

Balance Sheets as at	**31/12/2005**		**31/12/2004**	
Fixed Assets	**€**	**€**	**€**	**€**
Land and buildings at cost	825,000		750,000	
Less accumulated depreciation	(95,000)	730,000	(80,000)	670,000
Machinery at cost	400,000		470,000	
Less accumulated depreciation	(202,000)	198,000	(180,000)	290,000
		928,000		960,000
Financial Assets				
Quoted investments		130,000		100,000
Current Assets				
Stock	220,000		205,000	
Debtors	200,000		190,000	
Government securities	12,000		-	
Bank	-		10,000	
Cash	2,000		1,000	
	434,000		406,000	
Less **Creditors: amounts falling due within 1 year**				
Trade creditors	250,000		228,000	
Interest due	1,200		-	
Taxation	50,000		43,000	
Dividends	45,000		34,000	
Bank	6,800		-	
	(353,000)		(305,000)	
Net Current Assets		81,000		101,000
		1,139,000		1,161,000
Financed by				
Creditors: amounts falling due after more than 1 year				
9% Debentures		75,000		180,000
Capital and Reserves				
€1 Ordinary shares	830,000		790,000	
Share premium	22,000		-	
Profit and loss account	212,000	1,064,000	191,000	981,000
		1,139,000		1,161,000

The following information is also available:

1. There were no disposals of Buildings during the year but new Buildings were acquired.
2. There were no purchases of Machinery during the year. Machinery was disposed of for €35,000.
3. Depreciation charged for the year on Machinery in arriving at the Operating profit was €60,000.

You are required to:

(a) Prepare the Cash Flow Statement of Butler Plc for the year ended 31/12/2005 including Reconciliation Statement(s). (48)

(b) Explain why Cash Flow Statements are prepared. (8)

(c) Identify a Non Cash expense and a Non Cash gain. (4)

(60 marks)

4. Published Accounts

Ross Plc has an Authorised Capital of €800,000 divided into 600,000 Ordinary Shares at €1 each and 200,000 10% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2005.

	€	€
9% Investments 1/1/2005	200,000	
Patent	64,000	
Land and buildings (re-valued on 1/7/2005)	860,000	
Delivery vans at cost	140,000	
Delivery vans – accumulated depreciation on 1/1/2005		64,000
Revaluation Reserve		265,000
Debtors and Creditors	200,000	95,000
Purchases and Sales	700,000	1,221,000
Stock 1/1/2005	70,000	
Directors' Fees	89,000	
Salaries and General Expenses	175,000	
Discount		6,260
Advertising	23,000	
Investment Income		9,000
Profit on sale of Land		80,000
Rent	30,000	
Interim dividends	29,000	
Profit and Loss Balance 1/1/2005		78,000
6% Debentures including €100,000 issued on 1/8/2005		280,000
Bank		18,440
VAT		3,300
Issued Capital		
300,000 Ordinary Shares at €1 each		300,000
160,000 10% Preference Shares		160,000
	2,580,000	2,580,000

The following information is also relevant:

(i) Stock on 31/12/2005 was valued on a first in first out basis at €72,000

(ii) The patent was acquired on 1/1/2003 for €80,000. It is being amortised over 10 years in equal instalments. The amortisation is to be included in cost of sales.

(iii) On 1/7/2005 the Ordinary shareholders received an interim dividend of €21,000 and the Preference shareholders received €8,000. The directors propose the payment of the Preference dividend due and a final dividend on Ordinary shares to bring the total Ordinary dividend to 15c per share.

(iv) On 1/7/2005 land, which cost €100,000 was sold for €180,000. On this date the remaining land and buildings were re-valued at €860,000. Included in this revaluation is land now valued at €160,000 but which originally cost €50,000. The re-valued buildings had cost €530,000.

(v) Depreciation is to be provided as follows:
Delivery vans at the rate of 20% of cost.
Buildings at the rate of 2% of cost per annum until date of revaluation and thereafter at 2% per annum of re-valued figure.

(vi) Provide for debenture interest due, investment income due, auditors fees of €8,400 and taxation €40,000.

You are required to:

(a) Prepare the published **profit and loss account** for the year ended 31/12/2005, in accordance with the Companies Acts and appropriate reporting standards, showing the following notes:
1. Tangible fixed assets.
2. Stock.
3. Dividends.
4. Operating profit
5. Profit on sale of property. (48)

(b) What is an audit? Describe an auditor's report that is 'qualified'. (12)

(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 Sawgrass Plc., a manufacturer in the dairy industry, for the year ended 31/12/2005. The company has an Authorised Capital of €500,000 made up of 400,000 €1 Ordinary shares and 100,000 6% Preference shares.

Trading and Profit and Loss account for year ended 31/12/2005

	€
Sales	890,000
Cost of sales	(695,000)
Total operating expenses for the year	(120,000)
Interest for year	(20,000)
Net Profit for year	55,000
Proposed dividends	(48,000)
Retained profit for year	7,000
Profit and Loss balance 1/1/2005	40,000 cr.
Profit and Loss Balance 31/12/2005	47,000

Ratios and figures for year ended 31/12/2004

Interest cover	5 times
Quick ratio	1.2:1
Earnings per ordinary share	19c
Return on capital employed	14.2%
Market value of ordinary share	€2.10
Gearing	35%
P/E ratio	10 years
Dividend per ordinary share	18c

Balance Sheet as at 31/12/2005

	€	€
Intangible Assets	150,000	
Fixed Assets	320,000	
Investments (market value €90,000)	105,000	575,000
Current Assets (including Stock €45,000 and Debtors €48,000)	98,000	
Creditors trade	(28,000)	
Proposed dividends	(48,000)	22,000
		597,000
10% Debentures (2010/2011)		200,000
Issued capital		
300,000 Ordinary shares @ €1 each	300,000	
50,000 6% Preference shares @ €1 each	50,000	
Profit and Loss balance.	47,000	397,000
		597,000

Market value of one ordinary share is €2.

You are required to provide answers to the following:

(a) Calculate the following for the year 2005:
1. Interest cover.
2. Earnings per share.
3. Cash sales if the average period of credit given to debtors is 2 months.
4. How long it would take one ordinary share to recoup (recover) its 2005 market price based on present dividend pay out rate.
5. Dividend yield on ordinary shares **for 2004**. (45)

(b) Indicate whether the Debenture holders would be satisfied with the policies and state of affairs of the company. Use available relevant information to support your answer. (40)

(c) What actions would you advise the company to take? (15)

(100 marks)

6. Tabular Statement

The financial position of NSL Ltd on 1/1/2005 is shown in the following Balance sheet:

Balance sheet as at 1/1/2005

	Cost	Dep. to date	Net
Fixed Assets	€	€	€
Land & buildings	260,000	25,000	235,000
Equipment	50,000	20,000	30,000
	310,000	45,000	265,000
Current Assets			
Stock		70,000	
Debtors (less provision 5%)		85,500	
		155,500	
Less Creditors: amounts falling due within 1 year			
Creditors	61,000		
Bank	23,000		
Expenses due	3,500	87,500	
Net Current Assets			68,000
			333,000
Financed by			
Capital and reserves			
Authorised - 400,000 Ordinary shares @ €1 each			
Issued - 290,000 Ordinary shares @ €1 each			290,000
Share premium			14,000
Profit and loss balance			29,000
			333,000

The following transactions took place during 2005:

Jan. NSL Ltd. bought an adjoining business which included buildings €120,000, debtors €10,000 and creditors €38,000. The purchase price was discharged by granting the seller 80,000 shares in NSL Ltd. at a premium of 20 cent per share.

Feb. NSL Ltd. decided to re-value land and buildings at €550,000 (which includes land valued at €70,000) on 28/2/2005.

March Management decided that the provision for bad debts should be raised to 6% of debtors.

April Goods previously sold for €800 were returned. The selling price of these goods was cost plus 25%. A credit note was issued showing a deduction of 10% of the selling price as a restocking charge.

May Received a bank statement on May 31 showing a credit transfer received of €4,800 to cover 10 months rent in advance from May 1 and a direct debit of €2,000 to cover fire insurance for the year ended 31/3/2006.

June A payment of €630 was received from a debtor whose debt had been previously written off and who now wishes to trade with NSL Ltd. again. This represents 70% of the original debt and the debtor had undertaken to pay the remainder of the debt by January, 2006.

July A creditor, who was owed €500 by NSL Ltd., accepted equipment, the book value of which was €400, in full settlement of the debt. The equipment cost €900.

Aug. An interim dividend of 5c per share was paid on all paid up shares.

Oct. Received €40,000 from the issue of the remaining shares.

Nov. Received balance of previously written off bad debt as agreed in June.

Dec. The buildings are to be depreciated at the rate of 2% per annum of value at 28/2/2005. The total depreciation charge on equipment for the year was €9,700.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant asset, liability and capital accounts and ascertain the total assets and liabilities on 31/12/2005.

(100 marks)

7. **Correction of errors and suspense account**

The Trial Balance of M. O'Meara, a garage owner, failed to agree on 31/12/2005. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2005

Fixed Assets	**€**	**€**	**€**
Premises		700,000	
Equipment		60,000	
Furniture		20,000	780,000
Current Assets			
Stock (including suspense)		91,400	
Debtors		35,200	
Cash		500	
		127,100	
Less: Current Liabilities			
Creditors	54,000		
Bank	28,000	82,000	45,100
			825,100
Financed by:			
Capital		790,000	
Add: Net profit		64,100	
		854,100	
Drawings		29,000	825,100
			825,100

On checking the books, the following errors were discovered:

(i) A motor car, purchased on credit from D. Foran for €13,000, had been entered on the incorrect side of Foran's account as €1,300 and credited as €3,100 in the Equipment account.

(ii) O'Meara had returned a motor car, previously purchased on credit for €14,600 from a supplier. O'Meara entered this transaction as €16,400 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €500 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €14,100 in the creditor's account.

(iii) A debtor who owed O'Meara €1,000 sent a cheque for €800 and €150 in cash in full settlement. This was correctly recorded in the books. However, no entry has been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

(iv) A private debt for €770, owed by O'Meara, had been offset in full against a business debt of €820 owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.

(v) A cheque for €2,250 paid by O'Meara out of a private bank account for 15 months hire of diagnostic equipment up to 31/3/2006 had not been entered in the books.

You are required to:

(a)	Journalise the necessary corrections.	(50)
(b)	Show the Suspense Account.	(6)
(c)	Prepare a Statement showing the correct net profit.	(14)
(d)	Prepare a corrected Balance Sheet.	(20)
(e)	Explain with examples the difference between 'error of commission' and 'error of principle'.	(10)

(100 marks)

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

8. **Marginal and Absorption Costing**

A. Harrrington Ltd., produces a single product. The company's profit and loss account for the year ended 31/12/2005, during which 60,000 units were produced and sold, was as follows:

	€	€
Sales		720,000
Materials	288,000	
Direct labour	144,000	
Factory overheads	51,000	
Administration expenses	96,000	
Selling expenses	68,000	647,000
Net profit		73,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% of sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold at €13 per unit to provide a profit of 10% of the sales revenue received from these same units.

(c) The profit the company would make in 2006 if it reduced its selling price to €11, increased fixed costs by €10,000 and thereby increased the number of units sold to 80,000, with all other cost levels and percentages remaining unchanged.

B. Cloud Ltd., produces 8,000 units of product Z during the year ended 31/12/2005. 6,000 of these units were sold at €6 per unit. The production costs were as follows:

Direct Materials	€0.50 per unit
Direct Labour	€0.80 per unit
Variable Overhead	€0.50 per unit
Fixed Overhead Cost for the year	€3,000

You are required to:

(a) Prepare Profit and Loss statements under Marginal and Absorption costing principles.

(b) Outline the differences between Marginal and Absorption costing. Indicate which method should be used for financial accounting purposes and why.

(80 marks)

9. Flexible Budgeting

Mc Ginley manufactures a component for the motor industry. The following flexible budgets have already been prepared for 50%, 75% and 85% of the plant's capacity:

Output Levels	**50%**	**75%**	**85%**
Units	10,000	15,000	17,000
Costs	**€**	**€**	**€**
Direct materials	140,000	210,000	238,000
Direct wages	110,000	165,000	187,000
Production overheads	73,000	108,000	122,000
Other overhead costs	39,000	54,000	60,000
Administration expenses	28,000	28,000	28,000
	390,000	565,000	635,000

Profit is budgeted to be 24% of sales.

You are required to:

(a) (i) Classify the above costs into fixed, variable and mixed costs.

(ii) Separate production overheads into fixed and variable elements.

(iii) Separate other overhead costs into fixed and variable elements.

(iv) Prepare a flexible budget for 95% activity level.

(v) Restate the budget, using marginal costing principles, and show the contribution.

(b) What is an adverse variance? State why adverse variances may arise in Direct material costs.

(c) Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)

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