Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2023

Marking Scheme

Accounting

Higher Level

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

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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.

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Question 1 (A) Sole Trader

(a) Trading Profit and Loss Account of V. Leahy for the year ended 31/12/22 [1]

	€	€	€
Sales			1,848,900 **[3]**
Less cost of sales			
Opening stock		70,700 **[3]**	
Purchases W2		1,126,000 **[9]**	
Less closing stock W1		(93,650) **[7]**	(1,103,050)
Gross profit			745,850
Less Expenses			
Distribution Costs			
Loss on sale of delivery van W3	2,250 **[4]**		
Depreciation delivery vans W4	98,250 **[4]**		
Increase in BDP W5	1,974 **[4]**		
Advertising	16,000 **[3]**	118,474	
Administration Expenses			
Depreciation - buildings W6	15,000 **[3]**		
Salaries and general exp. W7	135,400 **[7]**		
Patent written off W8	6,250 **[5]**		
Dep. on equipment W9	15,350 **[2]**		
Rates	42,800 **[3]**	214,800	(333,274)
			412,576
Operating income			
Bad debt recovered		1,700 **[3]**	
Discount		7,700 **[2]**	9,400
Operating profit			421,976
Investment income W10			3,600 **[4]**
Mortgage interest W11			(7,180) **[5]**
Net profit			418,396 **[3]**

(b) Balance Sheet of V. Leahy as at 31/12/2022 **45**

		Cost		Acc. Dep	NBV
		€		€	€
Intangible Fixed Assets					
Patent	W12				43,750 **[2]**
Tangible Fixed Assets					
Land and buildings	W6	950,000	**[1]**	15,000 **[1]**	935,000
Delivery vans	W13&14	525,000	**[3]**	138,500 **[3]**	386,500
Equipment	W9	153,500	**[1]**	15,350 **[1]**	138,150
		1,628,500		168,850	1,459,650
Financial Assets					
4% Investments					180,000**[1]**
					1,683,400
Current Assets					
Closing stock	W1			93,650**[2]**	
Debtors	W15	67,900	**[3]**		
Less Bad Debts Provision	W16	(4,074)	**[1]**	63,826	
Investment income due	W17			200 **[2]**	
				157,676	
Creditors: amounts falling due within 1 year					
Creditors	W18	113,375	**[7]**		
VAT	W19	9,025	**[3]**		
Bank	W20	52,100	**[3]**		
Mortgage interest due	W21	6,275	**[2]**		
PAYE, PRSI, USC		4,700	**[1]**	(185,475)	(27,799)
					1,655,601
Financed by					
Creditors: amounts falling due after 1 year					
3% Mortgage					320,000**[1]**
Capital				762,000**[1]**	
Revaluation reserve	W 22			205,000**[3]**	
Net profit				418,396	
Drawings	W 23			(49,795)**[3]**	1,335,601
Capital employed					1,655,601

Question 1 A Workings

1.	Closing stock	82,600 -1,450 +12,500	93,650
2.	Purchases	1,193,500 +12,500 -77,000 -3000	1,126,000
3.	Loss on van	35,000 -3,000 -29,750	2,250
3.	Depreciation on van - disposal	35,000 by 20% for 51/12 months	29,750
4.	Depreciation delivery vans	72,000 + 26,250	98,250
		5,250 + 89,000 + 4,000	98,250
5	Change in BDP	2,100 – 4,074	(1,974)
6.	Depreciation – Buildings	950,000 - 200,000 = 750,000	
		750,000 × 2%	15,000
7.	Salaries & general expenses	136,400 - 600- 400	135,400
8.	Patent	48,800 +1,200 /8	6,250
9.	Depreciation on Equipment	153,500 x 10%	15,350
10.	Investment income	180,000 by 4% for 6/12 months	3,600
11.	Mortgage interest	8,100 + 875 – 1,795	7,180
		3375 + 5600 -1795	7,180
12.	Patents in the Balance Sheet	50,000 - 6,250	43,750
13.	Delivery vans	480,000 + 80,000 - 35,000	525,000
14.	Accumulated dep. vans	70,000 + 98,250 - 29,750	138,500
15.	Debtors	67,700 + 200	67,900
16.	Bad debt provision	67,900 × 6%	4,074
17.	Investment income due	3,600 - 1,200 - 2,200	200
18.	Creditors	98,600 + 15,375 - 600	113,375
19.	VAT	11,900 – 2,875	(9,025)
20.	Bank	53,600 - 1,500	52,100
		50,300 + 1,800	52,100
21.	Mortgage interest due	8,975 – 2,300 - 400	6,275
22.	Revaluation reserve	100,000 + 105,000	205,000
23.	Drawings	45,000 + 1,795 + 3,000	49,795

Question 1 (B) Final Accounts of a company

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(a) Trading Profit and Loss Account of East Elm Ltd for the year ended 31/12/2022 [1]

		€	€	€
Sales				1,150,000**[3]**
Less Cost of Sales				
Opening stock			55,400 **[3]**	
Purchases	W1		747,960 **[9]**	
Less closing stock	W2		(105,800) **[4]**	(697,560)
Gross Profit				452,440
Less Expenses				
Distribution Costs				
Bad Debts written off	W3	2,100 **[4]**		
Loss on sale of delivery van	W4	2,700 **[4]**		
Advertising		6,700 **[3]**		
Depreciation on delivery vans	W5	27,150 **[4]**	38,650	
Administration Expenses				
Patents written off	W6	10,970 **[5]**		
Deprecation equipment	W7	3,200 **[2]**		
Salaries & general expenses	W8	225,400 **[7]**		
Depreciation buildings	W9	16,000 **[3]**		
Directors fees		23,300 **[2]**	278,870	(317,520)
				134,920
Add Operating Income				
Discount			5,100 **[2]**	
Rent received			18,000 **[2]**	
Decrease in bad debt provision	W10		842 **[4]**	23,942
Operating Profit				158,862
Investment Income	W11			3,410 **[3]**
				162,272
Less Debenture Interest	W12			(15,300)**[4]**
Net Profit before Taxation				146,972
Taxation				(35,000)**[1]**
Net Profit after Taxation				111,972
Less Dividends paid				(45,000)**[1]**
Retained profit				66,972
P&L balance 01/01/2022				(59,000)**[1]**
P&L balance 31/12/2022				7,972 **[3]**

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(b) Balance Sheet of East Elm Ltd. as at 31/12/2022

		Cost	Acc Dep	NBV
Intangible Fixed Assets				
Patents	W13			43,880 **[2]**
Tangible Fixed Assets				
Land & Buildings		1,100,000 **[1]**	16,000 **[1]**	1,084,000
Delivery Vans	W14 & W15	184,000 **[3]**	51,850 **[3]**	132,150
Equipment	W16	65,000 **[1]**	36,200 **[2]**	28,800
		1,349,000	104,050	1,244,950
Financial Assets				
3% Investments				124,000 **[1]**
				1,412,830
Current Assets				
Closing Stock			105,800 **[1]**	
Debtors	W17	89,300 **[3]**		
Less Bad debts provision		(5,358) **[1]**		
Investment Income due	W18		83,942	
VAT	W19		1,860 **[2]**	
			5,980 **[2]**	
			197,582	
Creditors: amounts falling due within 1 year				
Creditors	W20	85,840 **[4]**		
Bank	W21	32,500 **[3]**		
Debenture Interest due	W22	10,900 **[2]**		
PAYE & PRSI & USC	W23	39,200 **[2]**		
Taxation due		35,000 **[1]**	(203,440)	5,858)
				1,406,972
Financed By				
Creditors: amounts falling due after 1 year				
6% Debentures				280,000 **[2]**
Share Capital		**Authorised**	**Issued**	
Ordinary shares @ €1 each		900,000 **[1]**	730,000 **[1]**	
4% Preference shares @ €1 each		500,000 **[1]**	80,000 **[1]**	
		1,400,000	810,000	
Revaluation Reserve	W24			
Capital reserve			270,000 **[2]**	
Profit & Loss balance			39,000 **[1]**	
Capital Employed			7,972 **[1]**	1,126,972
				1,406,972

Question 1 B Workings

1.	Purchases	758,000 + 16,000 + 960 - 27,000	747,960
2.	Closing stock	95,200 - 5,400 + 16,000	105,800
3.	Bad debts	900 /0.3 = 3,000 - 900	2,100
4.	Loss on sale	36,000 - 18,000 -15,300	2,700
4.	Depreciation on disposal of van	36,000 x 15% x 34/12	15,300
5.	Depreciation delivery vans	8,750 + 18,400	27,150
5.	Depreciation delivery vans	1,800 + 20,850 + 4,500	27,150
6.	Patents written off	(53,300 + 1,550)/5	10,970
7.	Depreciation equipment	32,000 x 10%	3,200
8.	Salaries and General Expenses	232,400 +2,000 - 9,000	225,400
9.	Depreciation buildings	(1,100,000 - 300,000) x 2%	16,000
10.	Provision for bad debts	5,358 – 6,200	842
11.	Investment income	(124,000 x .03) ÷ 12 x 11	3,410
12.	Debenture interest	5,500 + 9,800 OR 13,200 + 2,100	15,300
13.	Patents	54,850 — 10,970	43,880
14.	Delivery Van - cost	175,000 + 45,000 - 36,000	184,000
15.	Acc Depreciation Delivery Van	40,000 + 27,150 - 15,300	51,850
16.	Acc Depreciation Equipment	33,000 + 3,200	36,200
17.	Debtors	92,300 – 3,000	89,300
18.	Investment income due	3,410 - 1,550	1,860
19.	VAT	2,300 + 3,680	5,980
20.	Creditors	65,200 + 19,680 + 960	85,840
21.	Bank	33,400 – 900	32,500
		31,200 + 1,300	32,500
22.	Interest due	2,000 + 15,300 - 6,400	10,900
23.	PAYE, PRSI, USC	48,200 - 9,000	39,200
24.	Revaluation Reserve	150,000 + 120,000	270,000

Question 2 Incomplete Records **52**

Trading profit and loss account for year ended 31/12/2022		
	€	€
Sales (W1)		317,790 **[9]**
Less cost of sales		
Opening stock	63,000 **[2]**	
Purchases (W2)	112,460 **[7]**	
	175,460	
Less closing stock	(40,200) **[2]**	(135,260)
Gross profit		182,530
Less Expenses		
General expenses (W3)	92,380**[6]**	
Light and heat (W4)	17,765 **[5]**	
Rates (W5)	5,950**[4]**	
Increase in Bad debt provision (W6)	1,720**[2]**	
Depreciation on equipment (W7)	8,600 **[2]**	
Depreciation on premises (W8)	7,250 **[2]**	
Depreciation on vehicles (W9)	7,000**[1]**	140,665
		41,865
Add Operating Income		
Interest on fund		150 **[2]**
		42,015
Less Interest (W10)		(3,500) **[4]**
Net profit		38,515 **[4]**

Workings			
Sales (W1)			
Credit	46,000 + 43,000 – 73,200	=15,800	
Cash	196,000 + 12,500 + 84,000+ 9,360 + 430- 300	=301,990	317,790
Purchases (W2)			
Credit	37,000 + 55,400 - 57,700	= 34,700	
Cash		84,000	
Less drawings of stock		(6,240)	112,460
Gen. expenses (W3)	12,500 + 81,000 + 1,400 - 1,700 – 820		92,380
Light and heat (W4)	20,700 – 500 + 700 – 3,135		17,765
Rates(W5)	6,000 + 450 – 500		5,950
Increase in bad debt provision (W6)	43,000 x 4%		1,720
Dep. Premises (W8)	300,000 x 2% 6,000 150,000 x 2% x 5/12 1,250		7,250
Dep. equip (W7)	70,000 x 10% 7,000 24,000 x 10% x 8/12 1,600		8,600
Dep. Motor Vehicles (W9)	35,000 x 20%		7,000
Interest (W10)	4,375 - 875		3,500

(b) (i) Additional Information

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- General/Nominal Ledger
- Trial Balance
- Total Sales figure
- Total Purchases figure
- Bank balance
- Capital/Drawings
- Expenses(Bad debts/Discount allowed etc.)
- Incomes(Discount received/Rent received etc.)

(ii) Shepard should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable Shepard to prepare an accurate trading and profit and loss account and therefore would avoid reliance on rough estimates in order to determine profit.

Question 3

(a) **Adjusted Creditors Control Account** **24**

		€				€	
Balance b/d		280	**[2]**	Balance b/d		48,760	**[2]**
Credit Note	(v)	580	**[4]**	Purchases	(ii)	360	**[4]**
Contra/Debtors	(vi)	420	**[3]**	Discount disallowed	(iii)	184	**[4]**
Balance c/d		48,369		Restocking charge	(iv)	65	**[4]**
		______		Balance c/d		280	**[1]**
		49,649				49,649	
Balance b/d		280		Balance b/d		48,369	

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(b) **Schedule of Creditors Accounts Balances**

		€		€
Balance as per list of creditors				30,584 **[3]**
Add				
Purchases	(i)	16,840	**[4]**	
Purchases	(ii)	730	**[4]**	
Discount disallowed	(iii)	103	**[4]**	
Restocking charge	(iv)	650	**[4]**	18,323
Deduct				48,907
Credit note	(v)	638	**[4]**	
Contra	(vi)	180	**[4]**	(818)
Net balance as per adjusted control account				48,089 **[1]**

(c)

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(i) Explain why creditors control accounts are prepared.

1. They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.
2. They locate errors quickly and narrow searching for errors to confined areas.
3. They are useful when a firm needs to find credit purchases when preparing trading and profit accounts from incomplete records.
4. They allow amounts owed to creditors to be ascertained quickly by simply balancing the control accounts.

(ii) Explain the term restocking charge and outline how it might arise.

A restocking charge is a fee charged when stock is returned.
It usually arises when a customer sends unwanted goods back to a supplier to cover the cost of repackaging the goods/policy of the company/goods returned that have been damaged on the customer’s premises etc.

Question 4

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	01/01/2022	**Jan**	**Feb**	**April**	**June**	**Sept**	**Nov**	**Dec**	**31/12/22**
Land and buildings	820,000	130,000 **[2]**	126,000 **[1]**						1,076,000
Less acc. dep	(75,000)	75,000 **[2]**						(18,310) **[2]**	(18,310)
Vehicles	86,000						16,500 **[2]**		102,500
Less acc. dep	(30,500)						10,200 **[2]**	(18,550) **[2]**	(38,850)
Stock	38,000					1,250 **[2]**			39,250
Debtors	68,500		17,600 **[1]**			(1,650) **[2]**			84,450
Less BDP	(2,055)			(1,389) **[2]**					(3,444) **[1]**
Goodwill			22,400 **[2]**						22,400
Rates prepaid					6,000 **[2]**			(3,500) **[2]**	2,500 **[1]**
Total Assets	904,945	205,000	166,000	(1,389)	6,000	(400)	26,700	(40,360)	1,266,496
Share Capital	750,000		120,000 **[1]**						870,000
Share Premium	10,000		24,000 **[1]**						34,000
Creditors	53,700		22,000 **[1]**						75,700
Bank	18,650				(3,600) **[2]** 6,000 **[2]**		30,000 **[2]**		51,050 **[2]**
VAT	5,230					(345) **[2]**			4,885 **[1]**
Rent rec. prepaid					3,600 **[2]**			(2,800) **[2]**	800
Revaluation reserve		205,000 **[2]**							205,000
Profit and loss bal	67,365			(1,389) **[2]**		(55) **[2]**	(3,300) **[2]**	(18,310) **[1]** (18,550) **[1]** (3,500) **[1]** 2,800 **[1]**	25,061 **[2]**
Total Liabilities		205,000	166,000	(1,389)	6,000	(400)	26,700	(40,360)	1,266,496

5 Interpretation of Accounts 50

(a)

(i) Opening Stock $\frac{\text{Cost of Sales}}{\text{Average Stock}} = 14$ **[10]**

$\frac{€560{,}000}{14} = €40{,}000$

$(€40{,}000 \times 2) = €80{,}000$

$€80{,}000 – €42{,}000 = €38{,}000$

(ii) Return on capital employed $\frac{\text{Net Profit + Interest}}{\text{Capital Employed}} \times 100$ **[10]**

$\frac{€104{,}000 + €32{,}000}{€1{,}028{,}000} \times 100 = 13.23\%$

(iii) Price Earnings Ratio

$\frac{\text{Market Price}}{\text{Earnings Per Share}} = \frac{130c}{22.22c} = 5.85 \text{ years}$ **[10]**

$\text{EPS} = \frac{\text{Net profit – Preference dividend}}{\text{Number of ordinary shares}}$

$\frac{€104{,}000 - €4{,}000}{450{,}000} = 22.22 \text{ cent}$

(iv) Dividend Cover

$\frac{\text{Net profit – Preference dividend}}{\text{Ordinary dividend}}$ **[10]**

$\frac{€104{,}000 - €4{,}000}{€36{,}000} = 2.78 \text{ times}$

OR

$\frac{\text{EPS}}{\text{DPS}} \quad \frac{22.22 \text{ cent}}{8 \text{ cent}} = 2.78 \text{ times}$

$\text{Dividend per share} = \frac{€36{,}000}{450{,}000} = 8 \text{ cent per share}$

(v) Dividend Yield **[10]**

$$\frac{\text{Dividend per share}}{\text{Market price}} \times 100 \qquad \frac{8 \text{ cent}}{130 \text{ cent}} \times 100 = 6.15\%$$

$$\text{DPS} = \frac{\text{Ordinary Dividend}}{\text{No of Ordinary Shares}}$$

$$\frac{€36{,}000}{450{,}000} = 8 \text{ cent}$$

(b)

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Performance

Profitability **[7]**
O'Malley PLC is a profitable company. Its ROCE in 2022 is 13.23%. This has disimproved from 14.28% in 2021. The return is much better than the return from risk free investments of 0-2%. It is also higher than the 8% being paid to debenture holders and the 4% to preference shareholders. The company is making less efficient use of resources this year than last year. The EPS has disimproved slightly from 23c to 22.22c.

Dividend Policy **[4]**
The Dividend Cover has improved from 2.57 times to 2.78 times in 2022. In 2021 38.9% of the company's profits was paid out in dividends. In 2022 35.97% is being paid out. This shows that more money is being retained in the company for repayment of the loan, loan interest and expansion purposes. The Dividend per share has disimproved from 8.95 cent to 8 cent.

State of Affairs

Liquidity **[7]**
O'Malley PLC is a liquid company. The acid test ratio is 1.2:1. This has disimproved since 2021 when it was 1.5:1. It is still greater than the ideal ratio of 1:1. The company has €1.20 in liquid assets to repay every €1 owed in short-term debt. The company should have no problem making interest payments but would be concerned about the disimproving trend. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan

Gearing **[7]**
O'Malley plc is a lowly geared company. The gearing has disimproved from 35% in 2021 to 48.64% in 2022(students can use the debt to equity ratio here which is 94.7%. The company is financed more by equity than debt but is becoming more reliant on debt. The Debenture is due for repayment in 2026. There is nothing in the accounts to show that provision is being made for this repayment. The Interest cover has disimproved from 7.12 times in 2021 to 4.25 times in 2022. This is a cause for concern as the company is becoming less capable of repaying its loan interest.

Security **[7]**
Debentures are secured on Fixed Assets. Debenture holders would like to question the depreciation policy to ascertain the real value of assets. The value of Fixed Assets is €670,000/€970,000. There is adequate security for the loan of €400,000 due for repayment in 2026. Debenture holders would be satisfied that the investments which were bought for €300,000 are now worth €310,000 . This shows good management of investments by the management of the company.

Prospects

Sector **[5]**
O'Malley is a retailer in the fast food industry. Short term prospects in this industry are not good as people become more health conscious and move away to healthier foods. Long term prospects are not good as it is a highly competitive industry with many well known brands to compete against.

[3] Overall the debentures holders would be satisfied with the company. However they would be concerned with the disimproving trends in certain parts of the company such as in profitability, liquidity and gearing.

(c) **10**

Distinguish between the terms liquidity and solvency when used in ratio analysis.

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

Solvency is the ability of a company to pay all of its debts as they fall due for payment . 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 exceeds its outside liabilities. Debt to equity or total debt to total assets are good guides.

A rising liquidity ratio is a sign of prudent management. Discuss briefly.

A rising liquidity ratio can be a sign of prudent management because it indicates that is easier for the firm to pay its short-term debts on time and so avoid paying interest or help it achieve cash discounts for prompt payment. However, if the ratio is much higher than 1:1 it could mean that the company has too much of its resources tied up in liquid assets when they could be invested in fixed assets enhancing the productive capacity of the business.

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Question 6

Published Profit and Loss Account of Goodwin plc for year ended 31/12/2022

	€	
Turnover	2,730,000	**[2]**
Cost of sales	(1,648,000)	**[5]**
Gross profit	1,082,000	
Distribution costs	(524,700)	**[5]**
Administration expenses	(199,000)	**[6]**
Other operating income	97,000	**[3]**
Operating profit	455,300	
Exceptional item	85,000	**[2]**
Income from financial investments	8,250	**[3]**
Interest payable	(12,000)	**[3]**
Profit on ordinary activities before taxation [1]	536,550	
Tax on profit on ordinary activities	(99,000)	**[2]**
Profit on ordinary activities after taxation	437,550	
Dividends paid	(27,000)	**[2]**
Retained profit	410,550	
Profit and loss balance 01/01/2022	50,000	**[3]**
Profit and loss balance 31/12/2022	460,550	**[3]**

Workings:

1	Cost of Sales	69,000	+1,650,000	+ 19,000	- 90,000			1,648,000
2	Distribution Costs	444,000	+ 2,500	+ 3,000	+ 61,200	+ 14000		524,700
3	Administration	109,000	+ 8,000	+16,000	+ 45,000	+12,000	+ 9,000	199,000
4	Other Operating Income	14,000	+ 50,000	+ 33,000				97,000
5	Investment Income due	8,250	- 7000					1,250
6	Interest payable due	12,000	- 9,000					3,000
7	Intangible Assets	95,000	- 19,000					76,000
8	Debtors	291,000	- 23,500	+ 1,250				268,750
9	Other Creditors	16,000	+ 45,000	+ 3,000	+ 9,000			73,000
10.	Revaluation Reserve	180,000	+ 75,000					255,000

Balance Sheet of Goodwin plc as at 31/12/2022

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		€	**€**
Intangible Fixed Assets			76,000 **[1]**
Tangible Fixed Assets			1,174,800 **[2]**
Financial Assets			300,000 **[1]**
			1,550,800
Current Assets			
Closing stock		90,000 **[1]**	
Debtors		268,750 **[3]**	
Bank		89,000 **[1]**	
		447,750	
Creditors: amounts falling due within 1 year **[1]**			
Creditors	356,000 **[1]**		
Taxation	104,000 **[2]**		
Other creditors	73,000 **[4]**		
		(533,000)	
Net Current assets			(85,250)
Total assets less current liabilities			1,465,550[1]
Financed by			
Creditors: amounts falling due after 1 year			
6% Debentures			200,000[2]
Capital and reserves			
Called up share capital		550,000 **[2]**	
Revaluation reserve		255,000 **[3]**	
Profit and Loss balance		460,550 **[1]**	1,265,550
Capital employed			1,465,550

[1]

Accounting Policy Notes.

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1. Tangible Fixed Assets and stock. **[5]**
   Buildings were revalued at the end of this year and have been included in the accounts at their revalued 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 basis
   Delivery vans - 20% per annum on a reducing balance basis
   Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit **[6]**

The operating profit <u>is arrived at after charging</u>:	€
Depreciation on tangible fixed assets	76,200
Patent amortised	19,000
Directors fees	45,000
Auditors fees	16,000
Legal fees	9,000

3. Tangible Fixed Assets **[7]**

	Land & Buildings	**Delivery Vans**	**Total**
	€	**€**	**€**
Cost 01/01/2022	915,000	510,000	1,425,000
Disposal	(165,000)		(165,000)
Revaluation Surplus	180,000		180,000
	930,000	510,000	1,440,000
Accumulated depreciation 01/01/2022	60,000	204,000	264,000
Charge for year 31/12/2022	15,000	61,200	76,200
	75,000	265,200	340,200
Transfer to revaluation	(75,000)		(75,000)
	-	265,200	265,200
Net book value 01/01/2022	855,000	306,000	1,161,000
Net book value 31/12/2022	930,000	244,800	1,174,800

4. Dividends **[4]**

Ordinary dividend Paid 5.67c per share	17,000
Preference dividend Paid 4c per share	10,000

5. Contingent Liability **[2]**

The company is being sued by a former employee who is claiming unfair dismissal and is seeking compensation for €72,000. The company's legal team have advised that as all proper procedures were followed it is unlikely compensation will have to be paid to the former employee. The company has legal fees to pay of €9,000.

(b) (i) Explain what is meant by an Audit.

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An audit is an examination of the financial statements of an enterprise by an auditor, appointed by the ordinary shareholders, who is independent of the business.

Auditors will consider the following factors when forming their opinion in order to prepare their report:

(i) If proper books of account have been maintained
(ii) If accounting concepts, standards and policies have been correctly applied
(iii) If they have been given access to all relevant material
(iv) If accounting policies have been applied consistently from previous years
(v) If all legal requirements have been met - have the accounts been prepared according to the Companies Acts
(vi) Are the net assets greater than 50% of the issued share capital
(vii) Do the financial statements represent a true and fair view of the financial state of affairs the business.

Question 7.

18

(a) Statement of Company's Reserves (profit and loss balance) 01/01/2022

Assets		**€**	**€**
Surgery (800,000 - 48,000)		752,000 **[2]**	
Equipment (130,000 - 78,000)		52,000 **[2]**	
Stock – supplies for clinic		7,000 **[1]**	
Stock – supplies for shop		8,000 **[1]**	
Cleaning prepaid		400 **[1]**	
Investment income due		800 **[1]**	
Investments	W1	120,000 **[2]**	
Fees due from private patients		2,100 **[1]**	
Bank		54,000 **[1]**	996,300
Liabilities			
Creditors for supplies		3,000 **[1]**	
Issued Capital		450,000 **[1]**	
Loan	W2	80,000 **[1]**	
Loan interest due	W2	1,800 **[2]**	(534800)
Reserves at 01/01/2022			461,500**[1]**

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(b) Shop Profit/Loss for the year ended 31/12/2022

Sales		53,000 **[1]**
less Cost of Sales		
Opening stock	8,000 **[1]**	
Purchases	23,000 **[1]**	
	31,000	
Closing stock	(6,200) **[1]**	(24,800)
Gross Profit		28,200
less: expenses		
Light and heat	1,500 **[1]**	
Wages	7,800 **[1]**	
Insurance	1,150 **[1]**	
Telephone	600 **[1]**	(11,050)
Profit from shop		17,150 **[2]**

(c) Profit & Loss Account for the year ended 31/12/2022

Income		
Profit from shop		17,150
Private patients' fees W3		193,000**[4]**
Medical card scheme W4		108,700**[2]**
Investment income W5		4,800**[1]**
		323,650
Expenditure		
Light and Heat W6	6,400 **[3]**	
Postage	1,500 **[1]**	
Cleaning W7	8,850 **[3]**	
Insurance W8	5,150 **[2]**	
Purchases of supplies W9	37,500 **[5]**	
Telephone and Broadband W10	1,300 **[2]**	
Wages and salaries W11	64,200 **[2]**	
Rates	11,600 **[1]**	
Loan interest W12	1,400 **[1]**	
Loss on sale of equipment W13	600 **[3]**	
Dep: surgery W14	16,000 **[1]**	
Dep: equipment W15	28,500 **[1]**	
Bank fees	90 **[1]**	(183,090)
Net Profit		140,560
Add Reserves 01/01/2022		461,500 **[1]**
Reserves 31/12/2022		602,060 **[4]**

(d) Balance Sheet of All Whites Ltd as at 31/12/2022

Fixed Assets	**€**	**€**	**€**
Surgery	950,000 **[1]**	-	950,000
Equipment W16/W17	142,500 **[2]**	97,500 **[3]**	45,000
	1,092,500	97,500	995,000
4% Investments			120,000**[1]**
			1,115,000
Current Assets			
Stock – supplies		1,800 **[1]**	
Stock –shop		6,200 **[1]**	
Stock – oil		400 **[1]**	
Cleaning prepaid		750 **[1]**	
Fees due from private patients W18		2,750 **[2]**	
Medical card scheme due		2,700 **[1]**	
Investment interest due W19		4,000 **[1]**	
Bank W20		140,960 **[3]**	
		159,560	
Less Creditors: amounts falling due within I year			
Creditors for supplies	3,800 **[1]**		
Fees prepaid	4,700 **[1]**	(8,500)	151,060
			1,266,060
Financed by			
Capital and Reserves			
Share capital	800,000	450,000 **[1]**	
Revaluation reserve W21		214,000 **[2]**	
Reserves @31/12/2022		602,060 **[1]**	1,266,060
			1,266,060

Workings	
W1 Investments	1,600 X 3 = 4,800 /.04 = 120,000
W2 Loan	83,200/1.04 = 80,000
W2 Loan Interest	83,200 - 80,000 = 3,200/16 X 9 = 1,800
W3 Private Patients	198,000 - 2,100 + 1,800 - 4,700 = 193,000
W4 Medical Card Scheme	106,000 + 2,700 = 108,700
W5 Investment Interest	120,000 X 4% = 4,800
W6 Light and Heat	8,300 - 400- 1,500 = 6,400
W7 Contract Cleaning	9,200 + 400 – 750 = 8,850
W8 Insurance	6,300 –1,150 = 5,150
W9 Dental Supplies	7,000 +31,500 -3,000 +3,800 –1,800 = 37,500
W10 Telephone and Broadband	1,900 – 600 = 1,300
W11 Wages and Salaries	72,000 – 7,800 = 64,200
W12 Loan Interest	3,200/16 X 7 = 1,400
W13 Loss on sale of Equipment	15,000 - 5,400 – 9,000 = 600
W14 Depreciation Surgery	800,000 X 2% = 16,000
W14 Acc Depreciation Surgery	48,000 + 16,000 = 64,000
W15 Dep of Equipment	142,500 X.2 = 28,500
W16 Equipment	130,000 – 15,000 + 27,500 = 142,500
W17 Acc Dep Equipment	78,000 + 28,500 – 9,000 = 97,500
W18 Private Patients fees due	1,800 + 950 = 2,750
W19 Investment Income due	4,800 -(1,600 -800) = 4,000
W20 Bank	142,000 – 90 – 950 = 140,960
W21 Revaluation Reserve	150,000 +64,000 =214,000

10

(e)

In my opinion it is not advisable to increase the fees due to the danger of losing clients to other dental clinics.

An increase in fees to private patients of 10% would bring in an extra €19,300 in revenue. The clinic is very profitable at the moment with a profit generated in 2022 of €140,560. They have €140,960 in the bank after paying back a loan plus interest of €83,200 and net non-recurring expenditure on equipment of €22,100 .

They also have investments worth €120,000. Their ROCE is 11.21% which is a very healthy return.

Question 8

56

(a)(i)

100,000	420,000
25,000	120,000
75,000	300,000

$\frac{300{,}000}{75{,}000}$ = €4 per unit variable cost **[8]**

Units	25,000	70,000	100,000
Factory overheads	120,000	300,000	420,000
Variable Cost	(100,000)	(280,000)	(400,000)
Fixed Cost	20,000	20,000	20,000

Fixed Costs are €20,000

Sales		2,160,000	(€27)
Less Variable Costs:			
Materials	420,000		
Direct Labour	376,000		
Factory Overheads	320,000		
Selling Expenses	108,000	(1,224,000)	(€15.30) (€13.95 + €1.35)
Contribution		936,000	(€11.70)
Less Fixed Costs:			
Factory Overheads	20,000		
Selling expenses	74,750		
Admin	152,500	(247,250)	
Net Profit		688,750	

(ii) (a) Break-even point $\frac{247{,}250}{27-15.3}$ = 21,133 units **[16]**

Margin of Safety 80,000 -21,133 = 58,867 units

(ii) (b) **[4]**

The Margin of Safety is the reduction in sales that can occur before the breakeven point of a business is reached. In this question the margin of safety is 58,867 units.

(iii) Let **X** = the number of units

$30\mathbf{X} - (13.95\mathbf{X} + 1.50\mathbf{X}) - 247{,}250 = 3\mathbf{X}$
$30\mathbf{X} - 13.95\mathbf{X} - 1.5\mathbf{X} - 3\mathbf{X} = 247{,}250$
$11.55\mathbf{X} = 247{,}250$ **X** = 21,407 units **[14]**

<u>Alternative answer</u> -

$$\frac{\text{Fixed Costs}}{\text{CPU} - 10\%\text{sp}} = \frac{247{,}250}{30 - (13.95 + 1.5) - 3} = 21{,}407 \text{ units}$$

(iv) Let **S** = Selling price

$80{,}000\mathbf{S} - 80{,}000(13.95 + 0.06\mathbf{S}) - 271{,}975 = 688{,}750$
$80000\mathbf{S} - 1{,}116{,}000 - 4{,}800\mathbf{S} - 271{,}975 = 688{,}750$
$80{,}000\mathbf{S} - 4{,}800\mathbf{S} = 1{,}116{,}000 + 271{,}975 + 688{,}750$ **[14]**
$75{,}200\mathbf{S} = 2{,}076{,}725$

S = €27.62

<u>Alternative answer</u>

$$80{,}000 = \frac{271{,}975 + 688{,}750}{\mathbf{S} - (13.95 + 0.06\mathbf{S})}$$

S = €27.62

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(b) (i)

Absorption Costing

		€
Sales		54,000[1]
Less		
Direct materials (12,000*0.80)	9,600**[1]**	
Direct labour (12,000*1.75)	21,000 **[1]**	
Variable overheads	7,200 **[1]**	
Fixed overheads	4,000 **[1]**	
	41,800	
Less closing stock	(10,450) **[2]**	(31,350)
Net Profit		22,650 **[2]**

Marginal Costing

Sales		54,000 **[1]**
Less		
Direct materials (12,000*0.80)	9,600 **[1]**	
Direct labour (12,000*1.75)	21,000 **[1]**	
Variable overheads	7,200 **[1]**	
	37,800	
Less closing stock	(9450) **[1]**	(28350)
Contribution [1]		25,650
Less fixed costs		(4,000) **[1]**
Net Profit		21,650 **[2]**

B(ii) Benefits

6

1. All costs, variable and fixed, are recovered in the selling price charged to customers

2. It gives a more accurate valuation of closing stock at the end of the financial period and this will enable accurate final accounts to be prepared.

3. Helps managers to calculate the total cost of producing each product, which enables a business to manufacture the most profitable products.

4 . There is no need to separate costs into variable and fixed costs which can be very time-consuming and costly, and in many cases may not be possible at all.

5 Absorption costing complies with accounting principles and standards.

6. It matches the costs and revenues for the period.

7 Profit is higher under absorption costing.

Question 9.

(a) **Cash budget for Lupin LTD for 6 months ending 30/06/2024**

	Jan	Feb	Mar	Apr	May	Jun	Total
Receipts							
Cash Sales	177,840 **[1]**	206,910 [**1**]	215,460 **[1]**	222,300 **[1]**	225,720 **[1]**	251,180**[1]**	
Credit Sales - 1 month		168,480 **[2]**	196,020 **[1]**	204,120 **[1]**	210,600 **[1]**	213,840 **[1]**	993,060
Credit Sales - 2 months	________	__________	112,320 **[1]**	130,680 **[1]**	136,080 **[1]**	140,400 **[1]**	519,480
	177,840	375,390	523,800	557,100	572,400	605,420	2,811,950
Payments							
Purchases - 1 month		213,640 **[2]**	156,800 [**1**]	159,250 **[1]**	161,700 **[1]**	164,150 **[1]**	855,540
Purchases - 2 months			218,000 **[1]**	160,000 **[1]**	162,500 **[1]**	165,000 **[1]**	705,500
Wages	84,500 **[1]**	84,500	84,500	84,500	84,500	84,500	507,000
Variable Overheads	37,440**[1]**	43,560 **[1]**	45,360 **[1]**	46,800 **[1]**	47,520**[1]**	52,880**[1]**	273,560
Fixed Overheads	81,430 **[1]**	81,430 **[1]**	81,430 **[1]**	81,430 **[1]**	81,430 **[1]**	81,430 **[1]**	488,580
Equipment	36,000 **[1]**						36,000
Capital Payment		750 **[1]**	750	750	750	750	3,750
Interest	160 **[1]**	155 **[1]**	150 **[1]**	145 **[1]**	140 **[1]**	135 **[1]**	885
Total Payments	239,530	424,035	586,990	532,875	538,540	548,845	2,870,815
Net Cash	-61,690 **[1]**	-48,645 **[1]**	-63,190 **[1]**	24,225 **[1]**	33,860**[1]**	56,575 **[1]**	-58,865
Loan	24,000 **[1]**						24,000
Opening Cash	80,000 **[1]**	42,310	-6,335	-69,525	-45,300	-11,440	80,000
Closing Cash	42,310	-6,335	-69,525	-45,300	-11,440	45,135**[3]**	45,135

(b)

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Budgeted Profit & Loss Account for Lupin Ltd for 6 months ending 30/06/2024				
Sales			3,419,500	**[1]**
Less Cost of Sales				
Material	2,091,000	**[1]**		
Wages	507,000	**[1]**		
Variable Overhead	273,560	**[1]**		
Fixed Overhead	<u>488,580</u>	**[1]**	<u>(3,360,140)</u>	
Gross Profit			59,360	
Less Expenses				
Depreciation-Equipment	3,420	**[1]**		
Discount Allowed	<u>68,390</u>	**[2]**	<u>(71,810)</u>	
			(12,450)	
Discount Received			<u>17,460</u>	**[2]**
			5,010	
Less Interest			<u>(885)</u>	**[2]**
Net Profit			<u>4,125</u>	**[4]**

(c)

6

(i)

Market research/opinion of sales manager and sales representatives
Trends/State of Economy
Price to be charged/Sales price
Competition
Luxuries versus necessities
Last year's sales from other stores

(ii)

There are serious cash shortages in the business in February, March, April and May with a maximum forecast cash deficit, at the end of March of €69,525. This is even taking into consideration the €80,000 invested in the company by the owners at the start of January. So for those months corrective action will need to be taken by increasing cash receipts and reducing cash expenditures.

Lupin Ltd should change the credit terms for debtors to encourage more prompt payment by offering a bigger discount.

Lupin Ltd. should hire equipment instead of buying it to reduce cash expenditure, and spread the payments over the life of the asset which is 5 years instead of the 3 year repayment period for the loan. The company could also delay the start date for the repayment of loan or repay the loan over a longer period of time.

Agree better credit terms with creditors by negotiating a longer period of credit received.

Examine variable overheads to see if they can be reduced.

Examine the wage bill to see if it can be reduced.

Arrange a maximum bank overdraft of €69,525, which, according to these forecasts, could be repaid very quickly, as by the end of June there is a forecast cash surplus in the business of €45,135.

Annotation	Use
$\checkmark_n$	Correct element (n marks)
$\boxed{0}$	No marks awarded. Answer incorrect or insufficient
$\boxed{N}$	Refer to notes/workings
	Page seen by examiner / Information not valid
[	Surplus answer or part of answer. Marks awarded elsewhere.
$\boxed{P-}$	Minus one mark - Penalty, Incorrect Calculation, Misplaced Figure, Non Transfer.
$\boxed{\checkmark \frac{1}{2}}$	Half marks awarded.
	Underline.