2018. M55

Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2018

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 18 JUNE – AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

Section 1: **Financial Accounting** (120 marks).
This section has four questions (Numbers 1 - 4). The first question carries 120 marks and the remaining three questions carry 60 marks each. Candidates should answer either **QUESTION 1 only** OR attempt any **TWO** of the remaining three questions in this section.

Section 2: **Financial Accounting** (200 marks).
This section has three questions (Numbers 5 - 7). Each question carries 100 marks. Candidates should answer any **TWO** questions.

Section 3: **Management Accounting** (80 marks).
This section has two questions (Numbers 8 and 9). Each question carries 80 marks. Candidates should answer **ONE** of these questions.

Calculators
Calculators may be used in answering the questions on this paper. It is very important that workings are shown in the answer book(s) so that full credit can be given for correct work.

SECTION 1 (120 marks)
Answer **Question 1** OR any **TWO** other questions

1. Company Final Accounts including a Manufacturing Account

Austin Ltd has an authorised capital of €900,000 divided into 600,000 ordinary shares at €1 each and 300,000 5% preference shares at €1 each. The following trial balance was extracted from the books on 31/12/2017:

	€	€
Factory buildings (cost €940,000)	900,000	
Plant and machinery (cost €420,000)	255,000	
Profit and loss balance 01/01/2017		38,000
Sales		1,400,000
Sale of scrap materials		5,100
Bank		43,600
Debtors and creditors	62,000	49,400
Direct factory wages	200,000	
Purchase of raw materials	514,200	
Selling expenses	45,000	
Administration expenses	59,200	
General factory overheads (including suspense)	91,400	
Stocks on hand 01/01/2017		
Finished goods	43,100	
Raw materials	41,500	
Work in progress	38,200	
8% Debentures (including €50,000 issued on 01/04/2017)		300,000
Dividends paid	27,500	
Issued share capital - ordinary shares		550,000
- 5% preference shares		250,000
Hire of special equipment	39,800	
Discount (net)		8,000
Royalty payments	26,900	
Rent to 30/09/2017		9,000
4% Investments acquired on 01/03/2017	330,000	
PAYE, PRSI & USC		20,700
	2,673,800	2,673,800

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

(i) Stocks on hand at 31/12/2017:

	Finished goods	€68,100
	Raw materials	€31,500
	Work in progress	€40,200

(ii) It was discovered that finished goods had been sent to a customer on 31/12/2017 on a 'sale or return' basis. These goods had been recorded as a credit sale of €17,500 which is a mark-up on cost of 25%.

(iii) The suspense figure arises as a result of discount allowed €600 entered only in the debtors account and credit purchases of raw materials €6,000 entered on the incorrect side of the creditor account.

(iv) The figure for bank in the trial balance has been taken from the firm's records. However, a bank statement dated 31/12/2017 shows an overdraft of €33,300. A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A cheque for €1,000 had been lodged directly into the firm's bank account on behalf of a debtor in respect of a debt previously written off. This represented 40% of the original debt and the debtor has undertaken to repay the remainder in January 2018.
2. Rent due 31/12/2017 was paid directly into the firm's bank account.
3. A cheque of €6,300 issued to a supplier had not been presented for payment.

(v) Provide for a recent wage increase of 5% to be backdated to cover the three months from 01/10/2017.

(vi) During 2017 (January to December) Austin Ltd built an extension to the warehouse. The work was carried out by the company's own employees. The cost of their labour €24,000 (before wage increase) was included in factory wages. The materials, costing €31,500 were taken from stocks. No entry had been made in the books in respect of this extension.

(vii) Included in the figure for sale of scrap materials is €3,000 received from the sale of an old machine on 30/06/2017. This machine had cost €20,000 on 01/04/2011.

(viii) Provide for depreciation as follows:

Plant and machinery at the annual rate of 10% of cost from the date of purchase to the date of sale.
Buildings at 2% of the cost at 31/12/2017. Depreciation on buildings is to be allocated 75% to factory and the remainder to office administration.

(ix) Provision should be made for the following:

1. Investment income due and debenture interest due.
2. The creation of a provision for bad debts equal to 6% of debtors on 31/12/2017.

Required:

(a) Prepare a manufacturing, trading and profit and loss account for the year ended 31/12/2017. (75)

(b) Prepare a balance sheet as at 31/12/2017. (45)

(120 marks)

2. Depreciation of Fixed Assets

O'Brien Transport Ltd prepares its final accounts to 31 December each year. The company's policy is to depreciate its vehicles at the rate of **15% of cost per annum** calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a provision for depreciation account.

On 01/01/2016, O'Brien Transport Ltd owned the following vehicles:

No. 1 purchased on 01/01/2012 for €50,000
No. 2 purchased on 01/03/2013 for €66,000
No. 3 purchased on 01/10/2014 for €74,000

On 01/04/2016, vehicle no. 3 was crashed and traded in against a new vehicle costing €86,000. The company received compensation to the value of €43,000 and the cheque paid for the new vehicle was €65,000.

On 31/07/2017, vehicle no. 1 was traded in for €13,000 against a new vehicle costing €90,000. Vehicle no. 1 had a refrigeration unit fitted on 01/01/2013 costing €22,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, **with workings**, **for each of the two years 2016 and 2017**:

(a) The vehicles account. (6)

(b) The provision for depreciation account. (32)

(c) The vehicles disposal account. (14)

(d) (i) Explain what is meant by 'depreciation'.

(ii) Distinguish between the straight line method and reducing balance method of depreciation. (8)

(60 marks)

3. Incomplete Records

On 01/01/2017, T. Walsh purchased a business for €425,000 consisting of the following tangible assets and liabilities: premises €300,000, equipment €30,000, stock €22,600, debtors €28,300, 3 months premises insurance prepaid €4,800, trade creditors €25,400 and wages due €800.

During 2017 Walsh did not keep a full set of accounts but was able to supply the following information for the year ended 31/12/2017:

Cash Payments:	Lodgements €141,000, general expenses €43,200, purchases €76,000.
Bank Payments:	Light and heat €11,500, annual premises insurance premium €19,600, creditors €47,000, interest €1,200, rent for one year €24,000, equipment €12,000, standing order for charitable donation €2,000.
Bank Lodgements:	Debtors €52,000, cash €141,000.

Walsh took from stock goods to the value of €70 per week and cash €90 per week for household use during the year.

Walsh borrowed €120,000 on 01/07/2017 to purchase an adjoining premises. It was agreed that Walsh would pay interest at the rate of 6% per annum. One quarter of **this** building was used as a private residence. The capital sum is to be repaid using an investment fund which has been set up. This fund has earned interest of €900 to date.

Walsh estimated that 20% of the light and heat used as well as 25% of the interest payable for the year should be attributed to the private section of the premises.

The figure for rent was in respect of an adjoining building rented by Walsh on 01/08/2017, payable in advance.

Equipment owned on 31/12/2017 is to be depreciated at a rate of 14% of cost per annum.

Included in the assets and liabilities of the business on 31/12/2017 were: stock €24,200, debtors €23,400, trade creditors €18,200, cash €860 and electricity due €1,300.

Required:

(a) Prepare the trading, profit and loss account, for the year ended 31/12/2017. Show your workings.

(52)

(b) (i) Explain why Walsh should keep records of the amounts taken out as drawings.

(ii) Explain the importance of double entry bookkeeping for Walsh.

(8)

(60 marks)

4. Service Firm

The following were included in the assets and liabilities of M. Noctor, a doctor, on 01/01/2017:

Surgery €160,000, equipment €90,000, stock of medical supplies €8,000, 7% investments €70,000, creditors for medical supplies €10,400, furniture €30,000, amount owing from medical card scheme €9,500, capital and reserves €284,700, insurance prepaid €700.

The following is a receipts and payments account for the year ended 31/12/2017:

Receipts and Payments account for the year ended 31/12/2017

Receipts	€	Payments	€
Balance at bank 01/01/2017	4,000	Purchase of medical supplies	20,600
Sale of equipment (cost €12,000)	6,000	Cleaning expenses	3,200
Medical card scheme	72,000	Insurance	2,400
Receipts from private patients	40,750	Sponsorship of prize at local GAA club	2,000
Investment income	3,500	Drawings	37,000
		Light and heat	3,000
		Telephone	8,450
		Wages of receptionist	15,500
		Investment bonds (purchased 31/12/2017)	30,000
		Balance at bank 31/12/2017	4,100
	126,250		126,250

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

(i) Stock of medical supplies at 31/12/2017 was €8,300.

(ii) The figure for cash drawings includes €1,600 for 2 weeks wages paid to a locum doctor and you are required to provide for a further 4 weeks' wages due.

(iii) The figure for bank does not take into account bank charges of €120 and a dishonoured cheque €150 received from a private patient and lodged in December.

(iv) 70% of light and heat and telephone relate to the practice and the remainder is for a private residence.

(v) Provide for depreciation as follows:

Equipment – 20% of cost
Furniture – 15% of cost
Surgery – 2% of cost

Note: Fixed assets are given at cost and depreciation on them has been accumulated for 3 years to 01/01/2017. The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

(vi) Fees due from medical card scheme and private patients are €9,100 and €430 respectively. Creditors for medical supplies 31/12/2017 are €5,000.

(vii) The insurance payment is for the year ended 01/05/2018.

Required:

(a) Prepare an income and expenditure/profit and loss account for the year ended 31/12/2017. (34)

(b) Prepare a balance sheet as at 31/12/2017. (20)

(c) Dr. Noctor is considering updating the IT system and requires a loan of €150,000. Outline the factors a lender should consider before granting this loan. (6)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Born2Run plc, a retailer in the sportswear industry, for the year ended 31/12/2017. The company has an authorised capital of €650,000 made up of 400,000 ordinary shares at €1 each and 250,000 8% preference shares at €1 each. Born2Run plc has already issued 350,000 ordinary shares and 200,000 8% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2017		
	€	**€**
Sales		880,000
Opening stock	60,000	
Closing stock	90,000	
Costs of goods sold		(560,000)
Operating expenses for year		(220,000)
Interest for year		(18,000)
Net profit for year		82,000
Dividends paid		(45,000)
Retained profit		37,000
Profit and loss balance 01/01/2017		43,000
Profit and loss balance 31/12/2017		80,000

Ratios and information for year ended 31/12/2016	
Earnings per ordinary share	20c
Dividend per ordinary share	10c
Interest cover	6.3 times
Quick ratio	1.3:1
Market value of one ord. share	€1.60
Return on capital employed	12.4%
Gearing	41%
Dividend cover	1.3 times
Dividend yield	6.25%

Balance Sheet as at 31/12/2017		
	€	**€**
Fixed Assets		650,000
Investments (market value 31/12/2017 €150,000)		200,000
		850,000
Current Assets	160,000	
Less Creditors: amounts falling due within 1 year		
Trade creditors	(80,000)	80,000
		930,000
Financed by:		
6% Debentures (2024 secured)		300,000
Capital and Reserves		
Ordinary shares @ €1 each	350,000	
8% Preference shares @ €1 each	200,000	
Profit and loss balance	80,000	630,000
		930,000

Market value of one ordinary share on 31/12/2017 is **€1.35**.

(a) **You are required to calculate the following for 2017**: (where appropriate calculations should be made to **two** decimal places).

(i) Cash purchases if the period of credit received from trade creditors is 2½ months.

(ii) Dividend yield.

(iii) Price earnings ratio.

(iv) Return on capital employed.

(v) Interest cover. (50)

(b) Indicate whether the debenture holders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer.

(40)

(c) Born2Run plc is considering expansion by purchasing a small sportswear company. It has obtained the following information relating to this company:

	2014	**2015**	**2016**	**2017**
Period of credit allowed to debtors	60 days	54 days	46 days	40 days
Period of credit received from creditors	20 days	26 days	30 days	34 days
Stock turnover	12 times	11 times	9 times	6 times

Having analysed the information in the above table, what advice would you give Born2Run plc regarding this purchase?

(10)

(100 marks)

6. Published Accounts

Capital plc has an authorised share capital of €800,000 divided into 600,000 ordinary shares at €1 each and 200,000 8% preference shares at €1 each. The following trial balance was extracted from the books at 31/12/2017:

	€	€
Delivery vans at cost	280,000	
Delivery vans - accumulated depreciation on 01/01/2017		116,000
6% Investments (purchased 01/04/2017)	300,000	
Buildings at cost	760,000	
Buildings - accumulated depreciation on 01/01/2017		81,300
Investment income		8,400
Debtors and creditors	139,000	108,000
Stock 01/01/2017	91,000	
Patent 01/01/2017	42,000	
Administrative expenses	205,000	
Distribution costs	144,000	
Purchases and sales	1,170,000	1,800,300
Carriage in	6,600	
Returns inwards	20,300	
Rental income		28,000
Profit on the sale of land		87,000
Dividends paid	55,000	
Bank	82,000	
VAT		34,200
Profit and loss account at 01/01/2017	42,500	
Issued capital		
Ordinary shares		600,000
8% Preference shares		120,000
Provision for bad debts		28,500
7% Debentures 2022/2023		300,000
Discount		39,000
Debenture interest paid	13,300	
	3,350,700	3,350,700

The following information is relevant:

(i) Stock on 31/12/2017 was €86,000.

(ii) The patent was acquired on 01/01/2014 for €63,000. It is being amortised over 9 years in equal instalments. This amortisation is to be included in cost of sales.

(iii) Provision should be made for debenture interest due, investment income due, auditors' fees €16,000, directors' fees €32,000 and corporation tax €49,000.

(iv) Included in distribution costs is the receipt of €15,000 for patent royalties.

(v) During the year, land adjacent to the company's premises, which had cost €80,000 was sold for €167,000. At the end of the year the company revalued its buildings to €850,000 and wishes to incorporate this value in this year's accounts.

(vi) Depreciation on buildings is to be provided at the rate of 2% p.a. straight line, and is to be allocated 40% to distribution costs and 60% to administration expenses. There was no purchase or sale of buildings during the year. Delivery vans are to be depreciated at the rate of 20% per annum on a **reducing balance** basis.

(vii) The company is being sued by a former employee who is claiming unfair dismissal and is seeking damages of €100,000. Company legal advisors have stated that it is unlikely that any compensation will have to be paid to the former employee. The company has received an invoice for legal fees to the value of €5,000 which must be provided for.

(viii) On the 31/12/2017, Capital plc entered into a preliminary contract agreement with Stewarts Ltd (a construction company) to build an extension to its premises at a cost of €400,000. It also intends to carry out improvements to existing premises at a cost of €120,000.

Required:

(a) Prepare the published profit and loss account for the year ended 31/12/2017 and a balance sheet as at that date in accordance with the Companies Acts and appropriate accounting standards showing the following notes:

1. Accounting policy note for tangible fixed assets and stock
2. Operating profit
3. Dividends
4. Capital expenditure commitments note
5. Tangible fixed assets. (90)

(b) Explain how an auditor safeguards the interests of shareholders. (10)

(100 marks)

7. Correction of Errors and Suspense Account

The trial balance of D. Fahy, a garage owner, failed to agree on 31/12/2017. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2017

Fixed Assets	**€**	**€**	**€**
Premises		500,000	
Motor vehicles		35,000	
Equipment		24,000	559,000
Current Assets			
Stock		60,500	
Debtors		10,800	
Cash		12,200	
		83,500	
Creditors: **amounts falling due within I year**			
Creditors (including suspense)	52,300		
Bank	18,400		
VAT	7,500	78,200	
Net current assets			5,300
Total assets less current liabilities			564,300
Financed by			
Capital		550,000	
Net profit		40,000	
		590,000	
Less drawings		(25,700)	564,300
			564,300

On checking the books the following errors and omissions were discovered:

(i) A car lift purchased on credit for €4,000, had been entered on the incorrect side of the creditors account. The only other entry made was a debit of €400 to the purchases account.

(ii) D. Fahy's private car valued at €10,000 was presented to the business for resale. No entry was made in the books regarding this transaction. This car was later sold on credit to a debtor of the business for €10,000. The sale had been treated as a cash sale.

(iii) D. Fahy had returned a motor car, previously purchased on credit from a supplier, for €12,000 and entered this transaction in the relevant ledger accounts incorrectly as €1,200. However, a credit note subsequently arrived from a supplier showing a restocking charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €11,800 in the creditors account.

(iv) A payment of €500 was received from F. Mc Fadden, a debtor, whose debt had previously been written off and who wishes to trade with D. Fahy again. This represents 80% of the original debt and the debtor has undertaken to pay the remainder of the debt by January 2018. No entry had been made in the books.

(v) D. Fahy purchased goods on credit from Car Parts Ltd for €3,000 plus VAT @ 13.5%. The only entries in the accounts were that the VAT inclusive figure was entered on the debit side of the equipment account and the VAT exclusive figure entered on the credit side of Car Parts Ltd account.

Required:

(a) Journalise the necessary corrections. (54)

(b) Show the suspense account. (6)

(c) Prepare a statement showing the corrected net profit. (14)

(d) Prepare a corrected balance sheet. (20)

(e) Outline the purpose of a suspense account. (6)

(100 marks)

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

8. **Stock Valuation and Product Costing**

(a) Stock Valuation

Weston Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2017:

Period	Purchases on Credit	Credit Sales	Cash Sales
01/01/2017 - 31/03/2017	4,500 @ €8 each	1,000 @ €10 each	1,200 @ €12 each
01/04/2017 - 30/06/2017	2,500 @ €7 each	2,000 @ €11 each	1,400 @ €13 each
01/07/2017 - 30/09/2017	3,000 @ €6 each	1,500 @ €13 each	1,800 @ €10 each
01/10/2017 - 31/12/2017	1,500 @ €5 each	1,000 @ €12 each	1,200 @ €11 each

On 01/01/2017 there was an opening stock of 5,000 units @ €6 each.

Required:

(i) Calculate the value of closing stock using 'First in/First out' (FIFO) method.
(ii) Prepare a trading account for the year ending 31/12/2017.
(iii) Explain how the concept of prudence applies to the valuation of closing stock.

(b) Product Costing

The following are the specifications for a job quotation received from Tully Ltd:

Direct Materials 70 kg @ €16 per kg

Direct labour hours spent in each department:

Department	Hours
A	50
B	120
C	24

The monthly budgeted figures are as follows:

Budgeted overheads				
Department	Variable	Fixed	Wage Rate per hour	Labour Hours
	€	€	€	€
A	20,000	22,000	15	500
B	18,000	23,000	26	1,000
C	21,000	42,000	34	1,400

General administration overheads are expected to be €55,100 for the month.

Required:

(i) Calculate the variable and fixed overhead absorption rates for each department in direct labour hours.

(ii) Calculate the administration overhead absorption rate in direct labour hours.

(iii) Calculate the selling price of the job if the profit is set at 25% of selling price.

(iv) Outline the role of the management accountant within an organisation.

(80 marks)

9. Flexible Budgeting

Conlon Ltd manufactures a component for the computer industry. The following flexible budgets have already been prepared for 60%, 75% and 90% of the plant's capacity:

Output levels	**60%**	**75%**	**90%**
Units	24,000	30,000	36,000
Costs	**€**	**€**	**€**
Direct materials	108,000	135,000	162,000
Direct wages	124,800	156,000	187,200
Production overheads	132,400	158,500	184,600
Other overhead costs	169,200	210,000	250,800
Administration overheads	40,500	40,500	40,500
	574,900	700,000	825,100

Profit is budgeted to be 20% of sales.

(a) **Required**:

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

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

(iii) Prepare a flexible budget for 95% activity level using marginal costing principles, and show the contribution.

(b) Assume that Conlon Ltd is currently operating at 100% capacity and is considering two capital expenditure options costing €8,000 each as follows:

Option 1

Modernisation of machinery which will save €0.60 per unit in the production overheads.

Option 2

Buying new machinery which would increase the plant's capacity by 10% while reducing all fixed overheads (including administration) by 8%.

Required:

(i) Prepare flexible budgets, using marginal costing principles and showing contributions, for both options taking the new cost structures into account.

(ii) Advise the company on the best option.

(c) **Required**:

(i) Distinguish between the terms 'contribution' and 'profit'.

(ii) Outline why Conlon Ltd would prepare a flexible budget.

(80 marks)

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