Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2020

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.

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Q1 Trading Profit and Loss Account of Heighway for the year ended 31/12/19 [1]

		€		€		€	
Sales						1,867,000	**[3]**
Less cost of sales							
Opening stock				62,900	**[3]**		
Purchases	W2			1,061,600	**[10]**		
Less closing stock	W1			(80,390)	**[8]**	(1,044,110)	
Gross profit						822,890	
Less Expenses							
Distribution Costs							
Dep. delivery vans	W3	52,400	**[5]**				
Advertising		56,800	**[3]**	109,200			
Administration Expenses							
Dep. land and buildings	W4	5,657	**[6]**				
Salaries and general exp.	W5	381,650	**[8]**	387,307		496,507	
						326,383	
Add operating Income							
Profit on sale of van	W6			1,200	**[6]**		
Bad debt recovered				1,500	**[4]**		
Discount				8,500	**[2]**		
Change in the BDP	W7			580	**[4]**	11,780	
Operating profit						338,163	
Investment income	W8					7,500	**[4]**
Mortgage interest	W9					(18,240)	**[5]**
Net profit						327,423	**[3]**

Balance Sheet of Heighway as at 31/12/2019

		Cost		Acc. Dep		NBV	
Tangible Fixed Assets							
Land and buildings	W4	900,000				900,000	**[1]**
Delivery vans	W10	266,000	**[3]**	93,200	**[3]**	172,800	
Equipment		128,800	**[1]**			128,800	
		1,294,800		93,200		1,201,600	
Financial Assets							
6% Investments						250,000	**[1]**
Current Assets							
Closing stock	W1			80,390	**[2]**		
Debtors	W11	98,000	**[3]**				
Less BDP	W7	(3,920)	**[1]**	94,080			
Investment income due	W8			5,000	**[3]**		
VAT	W12			12,750	**[5]**		
				192,220			
Creditors: amounts falling due within 1 year							
Creditors	W13	105,500	**[7]**				
Bank	W14	46,200	**[4]**				
Mortgage interest due	W9	18,000	**[2]**				
PAYE, PRSI, USC		3,450	**[2]**	(173,150)		19,070	
						1,470,670	
Financed by							
Creditors: amounts falling due after 1 year							
Mortgage						300,000	**[1]**
Capital				750,000	**[1]**		
Revaluation reserve	W 15			147,807	**[3]**		
Net profit				327,423			
Drawings	W 16			(54,560)	**[2]**	1,170,670	
Capital employed						1,470,670	

Workings:

1.	Closing stock	69,800 – 9,010 + 19,600		=	80,390
2.	Purchases	1,080,000 + 19,600 – 38,000		=	1,061,600
3.	Dep: delivery vans	250,000 by 20% for 3/12 months			
		266,000 by 20% for 9/12 months		=	52,400
4.	Depreciation – L & B	795,000 – 12,150			
		(782,850 – 500,000[2]) × 2%		=	5,657
5.	Salaries & general expenses	381,750 + 3,600 – 3,700		=	381,650
6.	Profit on van disposal	48,000 – 23,200 – 26,000		=	1,200
	Depreciation on disposal	48,000 by 20% for 29/12 months		=	23,200
7.	Change in BDP	4,500 – 3,920		=	580
	Bad debt provision	98,000 × 4%		=	3,920
8.	Investment income	250,000 by 6% for 6/12 months		=	7,500
	Investment income due	7,500 – 2,500		=	5,000
9.	Mortgage interest	240,000 X 8% X 3/12 300,000 X 8% X 9/12			22,800
	Mortgage interest	4,800 +18,000 – 4,560		=	18,240
		3,600 + 19,200 -4,560		=	18,240
	Mortgage interest due	22,800 + 3,600 – 8,400		=	18,000
10.	Delivery vans	250,000 – 48,000 + 64,000		=	266,000
	Accumulated dep. vans	64,000 – 23,200 + 52,400		=	93,200
11.	Debtors	97,500 + 500		=	98,000
12.	VAT	3,100 – 3,700 – 12,150		=	(12,750)
13.	Creditors	84,300 + 19,600 -900 + 2,500			105,500
14.	Bank	48,800 +900 – 1,000 -2,500		=	46,200
		32,000 +14,200		=	46,200
15.	Revaluation reserve	900,000 – 782,850	= 117,150		
		25,000 + 5,657	= 30,657	=	147,807
16.	Drawings	50,000 + 4,560		=	54,560

Q.2 Published Accounts **35**

(a)

Profit and Loss Account of Finan plc for the year ended 31/12/2019

		€	
Turnover		2,380,000	**[2]**
Cost of sales	W1	(1,438,000)	**[4]**
Gross profit		942,000	
Distribution costs	W2	(465,200)	**[4]**
Administrative expenses	W3	(180,800)	**[6]**
		296,000	
Other operating income	W4	119,000	**[3]**
Operating profit		415,000	
Investment income	W5	16,000	**[2]**
Profit on sale of land		65,000	**[2]**
		496,000	
Interest payable		(18,000)	**[2]**
Profit on ordinary activities before tax	**[1]**	478,000	
Taxation		(100,000)	**[2]**
		378,000	
Dividends paid		(38,000)	**[2]**
		340,000	
Profit brought forward at 01/01/2019		81,000	**[2]**
Profit carried forward at 31/12/2019		421,000	**[3]**

Penalties are applied where entries are in incorrect sequence

Workings

1.	Cost of sales: 85,000 + 1,450,000 – 110,000 + 13,000	=	1,438,000
2.	Distribution costs: 378,000 + 3,200 + 84,000	=	465,200
3.	Administration expenses: 92,000 + 12,000 + 14,000 + 50,000 +12,800	=	180,800
4.	Other operating income: 60,000 + 12,000 + 47,000	=	119,000
5.	Investment income:10,500 + 5,500	=	16,000
6.	Total dividends paid €38,000		
	Preference dividends 5% of 200,000 = 10,000		
	Ordinary dividend €28,000 = 8% of ordinary share capital		
	Note: depreciation – buildings 2% of 800,000 = 16,000		
	Distribution: 20% of 16,000	=	3,200
	Administration: 80% of 16,000	=	12,800

Notes to the Accounts

1. **Accounting Policy Notes [4]**
   Tangible Fixed Assets
   Buildings were re-valued at the end of 2019 and have been included in the accounts at their re-valued amount.
   Vehicles are shown at cost.
   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
   Vehicles 20% of cost
   Stock is valued on a first in first out basis at the lower of cost and net realisable value
2. **Operating Profit [3]**
   The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	100,000
Patent amortised	13,000
Director's remuneration	50,000
Auditors' fees	14,000

3. **Financial Fixed Assets [2]**
   Quoted Investments cost 250,000 with a market value of 290,000
   Unquoted Investments cost 85,000 with a directors' value of 98,000

4. Tangible Fixed Assets [7]			
	Land and Buildings	**Vehicles**	**Total**
	€	€	€
Cost as at 01/01/2019	940,000	420,000	1,360,000
Disposal	(140,000)		(140,000)
Revaluation surplus	200,000		200,000
	1,000,000	420,000	1,420,000
Depreciation			
Depreciation 01/01/2019	74,000	134,000	208,000
Depreciation charge for year	16,000	84,000	100,000
Revaluation	(90,000)		(90,000)
		218,000	218,000
Net book value 01/01/2019	866,000	286,000	1,152,000
Net book value 31/12/2019	1,000,000	202,000	1,202,000

(b) 9

Explain **three** reasons why a public limited company publishes its annual report and accounts.

1. To comply with legal requirements. The companies' acts require the publication of a profit and loss account and balance sheet.
2. To report to shareholders, final accounts are prepared along with a directors' report and an auditor's report.
3. To attract investors who might be interested in the financial position of the company to determine whether or not to invest funds.

Q.3 Incomplete Records

(a)

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Balance Sheet of S. Staunton as at 31/12/2019								
			€		€		€	
Intangible Assets								
Goodwill							17,950	[3]
Tangible Fixed Assets								
Premises			545,000	[2]			545,000	
Delivery vans			129,000	[2]	19,800	[1]	109,200	
			674,000		19,800		672,150	
4% Investments							25,000	[2]
							697,150	
Current Assets								
Closing stock			32,400	[1]				
Stock of heating oil			400	[1]				
Debtors	54,000	[1]						
Less BDP	(1,620)	[1]	52,380					
Rent prepaid			27,000	[3]				
Bank			48,600	[2]				
Rates prepaid			2,580	[3]				
Investment income due			250	[3]	163,610			
Less creditors: amounts falling due within 1 year								
Creditors			32,600	[2]				
Loan interest due			1,600	[3]				
Loan due			18,000	[3]				
Light and heat due			960	[2]	53,160		110,450	
Total net assets							807,600	
Financed by								
Long term loan							252,000	[3]
Capital					500,000	[1]		
New capital					20,000	[1]		
EU grant					18,000	[1]		
Net profit					42,804	[4]		
Less drawings					(25,204)	[7]		
Capital employed							807,600	

Workings

1.	**Premises** Plus: new premises 245,000	300,000 245,000	 545,000
2.	**Delivery vans** Plus: new van	84,000 45,000	 129,000
3.	**Closing Stock** Less: closing stock heating oil	32,800 (400)	 32,400
4.	**Bad Debt Provision** Debtors 54,000 × 3%		 1,620
5.	**Rent prepaid** 31/12/2019	32,400 × 10/12	27,000
6.	**Rates 3 months rates prepaid** 31/12/2019	10,320 × 3/12	2,580
7.	**Investment Income** P & L: 25,000 @ 4% @ 1 Year Less: received Due 31/12/2019	1,000 (750)	 250
8.	**Loan** - repayable in 30 half yearly payments: - Split - 2 payments due in next accounting period - Balance = long term loan	270,000	 18,000 252,000
9.	**Loan Interest** 270,000 @ 4% @ 4/12 months Less 20% drawings	3600 (720)	 2,880
10.	**Light and Heat** Less closing stock oil Plus: electricity due 31/12/2019 Drawings	5,600 (400) 960 6,160 × 15%	 924
11.	**Drawings** Purchases 280 × 52 Cash 150 × 52 Wages and general expenses Light and heat – 15% Interest – 20%	 14,560 7,800 1,200 924 720	 25,204

(b) **8**

The accruals concept states that all expenses incurred in a particular period are recorded in that period regardless of whether they are paid or not. For example in the year ending 31/12/2019 electricity due of €960 must be recorded in the accounts of 2019 even though it won't be paid until 2020. Also even though rates paid in 2019 is €10,320 only the portion of this applying to 2019 would be included in the figure for rates in the profit and loss account and the remainder was shown in the balance sheet as a current asset €2,480.

All incomes earned must be included in the accounts of that period whether received or not.

Investment income €1,000 must be included in the profit and loss account for 2019 even though €250 of it has yet to be received.

Q.4 Farm Accounts **20**

(a)

Statement of Capital 01/01/2019					
Assets		€		€	
Land and buildings		460,000	**[1]**		
Vehicles and machinery		124,000	**[1]**		
Value of cattle		84,000	**[1]**		
Value of sheep		27,600	**[1]**		
Milk cheque due		2,600	**[1]**		
Medicines prepaid		180	**[1]**		
Stock of fuel		830	**[1]**		
Bank		41,600	**[2]**		
Investments	W1	81,600	**[2]**		
2 months investment interest due		340	**[1]**	822,750	
Less Liabilities					
Electricity due		440	**[1]**		
Bank loan	W2	28,000	**[2]**		
Loan interest due	W2	3,325	**[3]**	(31,765)	
Capital 01/01/2019				790,985	**[2]**

(b) **20**

Enterprise Analysis Account – Cattle and Milk						
Income			€		€	
Sales:	Cattle and calves (24,810 + 7,800)		32,610	**[1]**		
	Milk	W4	32,150	**[2]**		
Single payment - cattle			2,370	**[1]**		
Increase in stock			20,000	**[1]**		
Drawings - milk			650	**[1]**	87,780	
Less Expenditure						
Purchases - cattle			16,800	**[1]**		
Dairy wages			4,200	**[1]**		
General farm expenses			13,950	**[1]**		
Fertiliser		W5	2,700	**[1]**		
Veterinary and medicine		W6	1,560	**[1]**	(39,210)	
Profit on cattle and calves					48,570	

Enterprise Analysis Account - Sheep						
Income			€		€	
Sales:	Sheep and lambs (16,800 + 13,500)		30,300	**[1]**		
	Wool		1,600	**[1]**		
Single payment – sheep			4,700	**[1]**		
Drawings - lamb			470	**[1]**	37,070	
Less Expenditure						
Purchases - sheep			10,400	**[1]**		
Decrease in stock			2,600	**[1]**		
General farm expenses			4,650	**[1]**		
Fertiliser		W5	900	**[1]**		
Veterinary and medicine		W6	520	**[1]**	(19,070)	
Profit on sheep					18,000	

10

(c)

General Profit and Loss Account for the year ended 31/12/2019						
Income			€		€	
Profit	- cattle and milk		48,570			
	- sheep		18,000			
Investment interest		W1	2,040	**[1]**		
E.U. GLAS environmental scheme			2,800	**[1]**	71,410	
Less Expenditure						
Light and heat		W7	1,872	**[2]**		
Repairs		W8	1,840	**[1]**		
Loan interest		W3	700	**[1]**		
Depreciation	- machinery	W9	13,600	**[1]**		
	- buildings	W10	2,080	**[1]**	(20,092)	
Net profit					51,318	**[2]**

4

(d)

Drawings Account				
Milk	650		Balance c/d	7,403
Lamb	470	**[1]**		
Loan interest	175	**[.5]**		
Light and heat	468	**[.5]**		
Health insurance	1,260	**[.5]**		
Repairs	460	**[.5]**		
Depreciation – machinery	3,400			
Depreciation - buildings	520	**[1]**		
	7,403			7,403

6

(e) Implications of an incorrect closing stock valuation

Incorrect valuation of stock affects:

1. The financial statements of two years or two accounting periods i.e. the closing stock of one accounting period and the opening stock of the next accounting period.
2. The figures for cost of sales, gross profit, net profit and the farm's tax liability.
3. In carrying out ratio analysis the figure for stock will affect the stock turnover, percentage mark-up on cost, gross profit percentage, net profit percentage and the current ratio.
4. The amount it may be able to borrow.

Workings

W1	**Investments** Interest for 2 months Interest for 1 Year	= 340 = 2,040	Interest for 1 month = 170 @ Rate of 2.5% = investment = €81,600
W2	**Interest** for 24 months = 7.5% × 24/12 months = 15% Repaid loan + 15% = 115% of the loan = 32,200 32,200/115 × 100 = 28,000 = loan		
W3	**Loan Interest** = 32,200 – 28,000 = 4,200 = 24 months 5 months in this year = 875 875 – drawings 20% = 700	1 month = 4,200/24 = 175 19 months b/d 01/01 = 3,325	

W4	**Milk Sales**	32,000	
	Add cheque due 31/12/2019	2,750	
	Less cheque due 01/01/2019	(2,600)	32,150
W5	**Fertiliser**	3,100	
	Add due 31/12/2019	500	3,600
		75% of 3,600 to cattle	2,700
		25% of 3,600 to sheep	900
W6	**Veterinary and Medicines**	180 + 3,160 - 1,260	2,080
	Less drawings		
		75% of 2,080 to cattle	1,560
		25% of 2,080 to sheep	520
W7	**Light and Heat**	2,600	
	Add Fuel 01/01/2019	830	
	Less electricity due 01/01/2019	(440)	
	Less fuel 31/12/2019	(650)	2,340
	2,340 – 20% drawings = 1,872		
W8	**Repairs** 2,300 – 20% drawings = 1,840		
W9	**Depreciation – Machinery**: 124,000 + 12,000 = 136,000 12.5% of 136,000 = 17,000 17,000 – 20% drawings = 13,600		
W10	**Depreciation – Buildings**: land and buildings = 460,000 Less land of 330,000 = buildings of 130,000 2% of 130,000 = 2,600 2,600 – 20% drawings = 2,080		

Q.5 Interpretation of Accounts **50**

(a)

(i) The Opening Stock if the Rate of Stock Turnover is 8 based on Average Stock

$$\frac{\text{Cost of sales}}{\text{Average stock}} = 8 \text{ times}$$

$$\text{Average stock} \times 8 = 536{,}000$$

$$\text{Average stock} = \frac{536{,}000}{8} = 67{,}000$$

$$\text{Average stock} = \frac{? + 75{,}000}{2} = 67{,}000$$

Opening stock = €59,000

[12]

(ii) Interest cover **[8]**

$$\frac{\text{Profit before interest \& tax}}{\text{Interest}} = \frac{120{,}000}{16{,}000} = 7.5 \text{ times}$$

(iii) Return on Shareholders' funds **[10]**

$$\frac{\text{Net profit – preference dividend}}{\text{Shareholders' funds}} = \frac{104{,}000 - 12{,}000 \times 100}{582{,}000} = 15.81\%$$

(iv) Market price if the price earnings ratio is 6 times **[10]**

Price earnings ratio × earnings per share 6 × 20c = 120c

104-12 = 92

92/460 = 20c

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

$$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100 = \frac{7.83}{120} \times 100 = 6.53\%$$

48-12 =36 36/460 =7.83

(b) **40**

The Shareholders would **be**/**not be** satisfied with the performance, state of affairs and prospects of the company for the following reasons: **[2]**

Performance

Profitability [7]

- The return on capital employed for 2019 is 10.15%. In 2018 the return was 9.8%. It has improved very slightly by 0.35%.
- The return on shareholder's funds is also very good at 15.81%.
- The company is in a profitable position as the return of 10.15% is better than the return from risk free investments of 1-2% maximum and is above the debenture interest rate of 4% and the preference share capital rate of 6%.
- The company is making efficient use of its resources this year.
- The earnings per share have improved by 1.5c per share from 18.5c in 2018 to 20c in 2019.

Dividend Policy [7]

- The dividend per share has disimproved, falling slightly from 8.33c in 2018 to 7.83 cent in 2019.
- The dividend cover is 2.56 times, the firm is paying out 39.06% of its available profits in dividends. Last year's dividend cover was 2.22 times meaning the firm was paying out 45.03% of available profits to shareholders. This is a small improvement, as slightly more is being retained for expansion purposes and the repayments of loans.
- The yield is 6.53%, a slight disimprovement from last year's 6.72% but is higher than the return from risk free investments of 1-2% and 4% debentures, but similar to the 6% return on preference shares.

State of Affairs

Liquidity [7]

- The acid test (quick ratio) has disimproved slightly from 1.1:1 in 2018 to 1.08:1 in 2019, above the ideal of 1:1.
- Robinson plc does not have liquidity problems and is able to pay its bills as they arise because it has 108c available in liquid assets for every euro it owes in the short-term.
- It will not have problems paying dividends and other short-term debts as they fall due.

Gearing [7]

- Gearing has improved. It has gone from being highly geared in 2018 at 55.76% down to 50.76% in 2019, still technically highly geared, but only just. The debt to equity ratio has disimproved from 55.76% to 103.1%.
- This is a positive trend, Robinson plc are now less dependent on outside borrowing and would appear to be less of a risk from outside investors. If using the debt to equity ratio it is a negative trend etc.
- Interest cover has risen slightly from 7 times in 2018 to 7.5 times in 2019. The firm should not have any difficulty making interest payments.
- These figures should mean that the firm has more money available for paying dividends, or reinvesting, or paying off debt. However, the debentures are listed for repayment in 2023/2024. Robinson plc has not put aside sufficient resources to be able to repay these when the time comes.
- Selling the investments is not going to raise enough to pay off the debentures, and if the firm delays, the investments may fall further in value.

Investment Policy

- The firm has investments currently valued at €130,000 which is a fall in value from €200,000. Shareholders would be disappointed with this. This would indicate poor management of those resources by management.

Prospects

Sector [5]

Robinson plc is in the home renovation and insulation industry.

- In the short term this industry is growing as more people take advantage of government grants to insulate their homes and reduce the high cost of home heating fuels.
- In the long term, economic uncertainty may cause some people to delay investing in their homes. Alternatively it may cause others to invest if moving house is no longer an affordable option.

Share Performance [5]

- The earnings per share has risen slightly from 18.5c in 20.18 to 20c in 2019.
- The price earnings ratio has dropped slightly in the same period from 6.7 years to 6 years, meaning it will take 6 years to make back the market price of the share at current performance levels.
- The share price has fallen slightly from €1.24 to €1.20 since 2018.
- This indicates a lack of confidence in the firm by the stock market.

(c)

10

Explain how a faster stock turnover can increase the profitability of a business.

- Each time stock is sold, because it contains a mark-up, profitability increases.
- If the cost of buying the extra stock increases at a slower rate than the mark-up then profitability increases.
- The more times the stock is turned over the greater the mark-up and profit will be increased.
- Where stock turnover is high less stock may be held resulting in reduced stock holding costs (insurance, waste etc.) which could lead to an increase in profitability.
- A faster stock turnover means that the firm may enjoy economies of scale, such as bulk-buying discounts, which will reduce costs and increase profitability.

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Q.6 Correction of Errors and Suspense Account

(a) General Journal

(i) [11 marks]	**Dr**	**Cr**
	€	€
Creditors		6,060 **[2]**
Purchases		6,000 **[2]**
Suspense	12,060 **[2]**	
Equipment	6,600 **[2]**	
Creditors		6,600 **[2]**
Being correction of equipment purchased on credit being entered on the incorrect side of the incorrect accounts. **[1]**		

(ii) [11 marks]	€	€
Equipment		6,800 **[2]**
Accumulated depreciation equipment	1,600 **[3]**	
Creditors	5,500 **[2]**	
Discount		300 **[3]**
Being omission of a creditor accepting equipment in payment of a debt. **[1]**		

(iii) [8 marks]	€	€
Capital		1,500 **[3]**
Creditors	1,660 **[2]**	
Discount		160 **[2]**
Being omission of a private debt owed to Beglin, offset against a business debt owed by Beglin **[1]**		

(iv) [12 marks]	€	€
Creditors	1,000 **[2]**	
Insurance	750 **[2]**	
Suspense		3,500 **[2]**
Repairs	1,000 **[2]**	
Drawings	750 **[3]**	
Being correction of repairs and drawings entered incorrectly in both the creditors and insurance accounts. **[1]**		

(v) [10 marks]	€	€
Bank	920 **[2]**	
Creditors	990 **[1]**	990 **[1]**
Discount	70 **[2]**	
Capital		990 **[3]**
Being omission of a dishonoured cheque issued by the firm and new capital introduced to cover the payment. **[1]**		

(b) Corrected Suspense Account **6**

Suspense a/c

Creditors/Purchases	12,060**[2]**	Bal	8,560	**[2]**
		Bank/Cr/Ins	3,500	**[2]**

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(c) Statement of Corrected Net Profit

		€		€	
	Net profit			42,700	
Add:					
(i)	Purchases	6,000	**[2]**		
(ii)	Discount	300	**[2]**		
(iii)	Discount	160	**[2]**	6,460	
				49,160	
Less:					
(iv)	Insurance	750	**[2]**		
(iv)	Repairs	1,000	**[2]**		
(v)	Discount	70	**[2]**	(1,820)	
	Correct net profit			47,340	**[2]**

(d) Balance Sheet of J. Beglin as at 31/12/2019

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Fixed Assets		€		€		€	
Premises		740,000				740,000	
Vehicles		125,000		40,000		85,000	**[1]**
Equipment	+ 6,600 - 6,800	38,500	**[2]**				
Accum.Dep.	- 1,600	________		13,000	**[2]**	25,500	
		903,500		53,000		850,500	
Current Assets							
Stock		84,900	**[1]**				
Debtors	+ 8,560	74,860	**[1]**				
Cash		3,200	**[1]**	162,960			
Creditors falling due within 1 year							
Bank	- 1,750 -920 + 1,750	25,680	**[3]**				
VAT		12,000	**[1]**				
Creditors	+ 12,660						
	- 5,500- 1,660- 1,000	84,300	**[4]**	(121,980)		40,980	
						891,480	
Creditors: **amounts falling due after 1 year**							
Capital	+ 1,500 + 990			852,490	**[2]**		
Net profit				47,340	**[1]**		
Drawings	+ 750			(8,350)	**[1]**		
						891,480	

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(e) Error of Commission

This is where the correct amount is posted to the correct side of the incorrect Account. For example sales of €5,000 debited to M O' Flaherty's account instead of D O' Flaherty.

This will not be revealed by the trial balance as the correct amount has been entered on the debit side even though in wrong account. The debit side and credit side of the trial balance will agree so it will not be obvious that an error has been made.

Q.7 **18**

(a)

Statement of Capital and Reserves 01/01/2019				
Assets				
	€		€	
Buildings and grounds	611,000	[2]		
Equipment	49,000	[2]		
Motor vehicles	24,000	[2]		
Stock in shop	4,700	[1]		
Stock of heating oil	1,900	[1]		
5% Investments	80,000	[1]		
Contract cleaning prepaid	750	[1]		
Bank	93,900	[1]	865,250	
Liabilities				
Clients deposits paid in advance	5,700	[1]		
Creditors for supplies	3,700	[1]		
Issued share capital	525,000	[1]		
Loan	70,000	[1]		
Loan interest	4,200	[2]	(608,600)	
Reserves 01/01/2019			256,650	[1]

(b) **10**

Shop profit and loss a/c for year ending 31/12/2019				
Shop receipts			63,600	[1]
Less cost of sales				
Opening stock	4,700	[1]		
Purchases	29,100	[1]		
	33,800			
Less closing stock	(3,600)	[1]	(30,200)	
Gross profit			33,400	
Less expenses				
Wages	7,800	[1]		
Light and heat	350	[1]		
Insurance	850	[1]		
Telephone and broadband	400	[1]	(9,400)	
Net profit			24,000	[2]

(c)

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Profit and Loss a/c for year ended 31/12/2019				
Income				
Profit from shop	24,000			
Clients' fees	272,400	**[4]**		
Investment income	4,000	**[1]**	300,400	
Expenditure				
Light and heat	7,130	**[5]**		
Cleaning	4,875	**[3]**		
Laundry	3,400	**[1]**		
Telephone and broadband	2,200	**[1]**		
Depreciation buildings	15,200	**[1]**		
Insurance	7,850	**[1]**		
Depreciation equipment	8,500	**[1]**		
Depreciation motor vehicles	13,000	**[1]**		
Loss on sale of vehicle	1,000	**[3]**		
Wages and salaries	75,100	**[2]**		
Purchase of supplies	30,050	**[3]**		
Loan interest	1,200	**[1]**	(169,505)	
Net profit			130,895	
Reserves 01/01/2019			256,650	**[1]**
Profit and loss balance 31/12/2019			387,545	**[3]**

(d) **30**

Balance Sheet as at 31/12/2019						
	Cost		**Depreciation**		**NBV**	
Fixed Assets	€		€		€	
Buildings	850,000				850,000	**[1]**
Equipment	85,000	**[2]**	29,500	**[2]**	55,500	
Motor vehicles	75,000	**[3]**	27,000	**[3]**	48,000	
	1,010,000		56,500		953,500	
Financial Fixed Assets						
5% investments					80,000	**[1]**
					1,033,500	
Current Assets						
Bank	27,200	**[2]**				
Stock - shop	3,600	**[1]**				
Stock - heating oil	700	**[1]**				
Clients' fees due	900	**[2]**				
Cleaning prepaid	475	**[2]**				
Investment income due	500	**[2]**	33,375			
Less creditors: amounts falling due within 1 year						
Creditors for supplies	2,450	**[1]**				
Clients' fees prepaid	7,300	**[1]**				
Electricity due	380	**[1]**	(10,130)		23,245	
					1,056,745	
Financed by						
Creditors amounts falling due after more than 1 year						
	Authorised		Issued			
Capital	650,000**[1]**		525,000	**[1]**		
Revaluation reserve			144,200	**[2]**		
Profit and loss balance 31/12/2019			387,545	**[1]**	1,056,745	

(e) **10**

Sell the investments of €80,000 and issue more ordinary shares for €60,000 or alternatively issue the remaining shares of €125,000 and sell €15,000 investments. The company has just repaid a loan with interest of €75,400 and still retained a current account balance of €27,200 and therefore is in a good position to borrow more money if needs be.

The company still has money in the bank despite having spent a net €163,000 on new fixed assets which are of a non-recurring nature.

The company has made a net profit this year of €130,895. Therefore, the company has no need to borrow money to finance the project and this will eliminate any future interest payments.

1.	Clients' fees	5,700 +273,100 – 7,300 + 900	272,400
2.	Motor vehicles	60,000 + 45,000 – 30,000	75,000
	Accumulated depreciation	36,000 + 13,000 – 22,000	27,000
	Depreciation P & L	8,000 + 5,000	13,000
	Loss on vehicle	30,000 – 22,000 – 7,000	1,000
3.	Light and heat	1,900 + 5,900 – 700 – 350 + 380	7,130
4.	Cleaning	750 + 4,600 – 475	4,875
5.	Creditors for supplies	31,300 – 3,700 + 2,450	30,050
6.	Loan interest 5,400 × 4/18 5,400 × 14/18		 1,200 4,200

Q.8 Marginal and Absorption Costing

(a) **58**

(i) High Low Method

	Output (units)	Production Overheads
High	21,000	148,500
Low	13,800	123,300
Difference	7,200	25,200

Variable Cost per Unit $= \frac{25{,}200}{7{,}200}$ = €3.50 **[4]**

Total cost at 21,000 Units	=	148,500	
Less variable cost (21,000 × €3.50)		73,500	
Fixed cost		€75,000	**[4]**

(ii) Marginal Costing Statement

		€	€	€ Per Unit	
Sales (26,000 units)			1,040,000	40.00	
Less Variable Costs					
Direct materials	(26,000 × €8.50)	221,000		8.50	
Direct labour	(26,000 × €14.00)	364,000		14.00	
Factory overheads	(26,000 × €3.50)	91,000		3.50	
Sales commission	(26,000 × €2.40)	62,400	(738,400)	2.40	*
Contribution			301,600	11.60	
Less Fixed Costs					
Administration expenses		115,500			
Selling expenses (excl. commission)		25,500			
Factory overheads		75,000	(216,000)		
Net Profit			85,600		

Break Even Point $\frac{\text{Fixed costs}}{\text{CPU}}$ $\frac{216{,}000\ \textbf{[4]}}{11.60\ \textbf{[5]}}$ = 18,621 units **[4]**

Margin of Safety Budgeted sales Less Break-even point
26,000 **[2]** Less 18,621 **[1]** = 7,379 units **[2]**

* *While selling price remains at €40.00 per unit and commission remains at 6%*

(iii) Number of units that must be sold at €45 to provide a profit of 15% of the sales revenue.

Variable cost per unit (excl. sales commission)	=	26.00
At €45 sales price per unit, the 6% commission	=	2.70
New variable cost per unit	=	28.70

Let number of units	=	U
Sales revenue	=	45U
Profit	=	6.75U

Sales	=	Variable costs		+	Fixed costs		+	Profit		
45U **[2]**	=	28.7U	**[4]**	+	216,000	**[2]**	+	6.75U	**[4]**	
9.55U	=	216,000								
U	=	22,617.80			22,618	units	**[2]**			

Alternative

Fixed costs	=	216,000	**[2]**	=	22,618 units	**[2]**
CPU – 15%		16.30 – 6.75	**[10]**			

(iv) The profit given changes in selling price, units sold, variable and fixed costs.

Sales	(31,200 × €38)	1,185,600	**[6]**
Less variable costs	(31,200 × €28.66) *	(894,192)	**[4]**
Contribution		291,408	
Less fixed costs	216,000 + 8,640	(224,640)	**[2]**
Profit		66,768	**[2]**

* Variable costs PU = €8.50 + €14.00 + €3.50 + €2.66 = €28.66

(v)

Step fixed costs

Step fixed costs are costs that are fixed within a certain range of activity but change outside of that range. **[2]**

E.g. rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus, the fixed costs would increase in steps. **[2]**

(b) **22**

(i)

Absorption Costing

	Units		€		€
Sales	12,000	× €4.20			50,400 **[1]**
Less Production Costs (15,000 units)					
Materials	15,000	× €0.70	10,500	**[1]**	
Labour	15,000	× €0.60	9,000	**[1]**	
Variable	15,000	× €0.55=	8,250	**[1]**	
Fixed overheads			8,400	**[1]**	
			36,150		
Less closing stock	3,000/15,000 =	20% of €36,150	(7,230)	**[2]**	(28,920)
Profit					21,480

Marginal Costing

	Units	€	€		€	
Sales	12,000	× €4.20			50,400	**[1]**
Less Production Costs (15,000 units)						
Materials	15,000	× €0.70 =	10,500	**[1]**		
Labour	15,000	× €0.60 =	9,000	**[1]**		
Variable	15,000	× €0.55 =	8,250	**[1]**		
			27,750			
Less closing stock	3,000/15,000 =	20% of €27,750 =	(5,550)	**[1]**	(22,200)	
Contribution					[1]28,200	
Fixed costs					(8,400)	**[1]**
Profit					19,800	

(ii) Marginal v Absorption Costing **[8]**

There is a different profit figure because closing stock is valued differently.

Marginal costing does not include fixed costs when costing a product whereas absorption costing does include the fixed costs.

Therefore, closing stock under marginal costing is valued lower than under absorption costing because a share of fixed costs is included in the value of stock under absorption costing but not included under marginal costing.

Under absorption costing, closing stock is valued at 20% of the production cost of €36,150.
Under marginal costing, closing stock is valued at 20% of the production cost of €27,750.

Closing stock under absorption costing is €7,230.
Closing stock under marginal costing is €5,550.

This is a difference of €1,680.

The profit difference is €21,480 – €19,800 = €1,680

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

Q.9 Production and Cash Budgeting 11

(a)

Production Budget									
	July		**August**		**Sept.**		**Oct.**		**Nov.**
Sales	11,400	**[1]**	11,600	**[1]**	11,800	**[1]**	11,900	**[1]**	12,200
Add closing stock	6,960	**[1]**	7,080	**[1]**	7,140	**[1]**	7,320	**[1]**	7,440
Less opening stock	0		(6,960)	**[1]**	(7,080)	**[1]**	(7,140)	**[1]**	(7,320)
Required for production	18,360		11,720		11,860		12,080		12,320

(b) 13

Raw Materials Purchases Budget									
	July		**August**		**Sept.**		**Oct.**		**Nov.**
Units of production	18,360	[½]	11,720	[½]	11,860	[½]	12,080	[½]	12,320
Materials per unit	4	[½]	4		4		4		4
Required for production	**73,440**	[½]	**46,880**	[½]	**47,440**	[½]	**48,320**	[½]	**49,280**
Add closing stock (20%)	9,376	[½]	9,488	[½]	9,664	[½]	9,856	[½]	
Less opening stock	0		(9,376)	[½]	(9,488)	[½]	(9,664)	[½]	
Required for Purchases in kg	**82,816**	[½]	**46,992**	[½]	**47,616**	[½]	**48,512**	[½]	
Price per kg	€3	[½]	€3		€3		€3		
Cost of/Purchases Raw Materials in €	**248,448**	[½]	**140,976**	[½]	**142,848**	[½]	**145,536**	[1]	

(c) **35**

Cash Budget								
Receipts	**July**		**August**		**September**		**October**	
Cash sales	216,600	**[1]**	220,400	**[1]**	224,200	**[1]**	226,100	**[1]**
Credit sales	0		342,000	**[1]**	348,000	**[1]**	354,000	**[1]**
	216,600		**562,400**		**572,200**		**580,100**	
Payments								
Purchases	0		248,448	**[1]**	140,976	**[1]**	142,848	**[1]**
Wages	77,000	**[1]**	78,000	**[1]**	79,000	**[1]**	79,500	**[1]**
Variable overheads	220,320	**[1]**	140,640	**[1]**	142,320	**[1]**	144,960	**[1]**
Fixed overheads	18,200	**[1]**	18,200		18,200		18,200	
Equipment	108,000	**[1]**						
Loan repayments			2,000	**[2]**	2,000		2,000	
Interest			480	**[1]**	470	**[1]**	460	**[1]**
	423,520		**487,768**		**382,966**		**387,968**	
Net monthly cash flow	**(206,920)**	**[1]**	**74,632**	**[1]**	**189,234**	**[1]**	**192,132**	**[1]**
Loan	96,000	**[1]**						
Opening cash balance	0		(110,920)	**[1]**	(36,288)	**[1]**	152,946	**[1]**
Closing cash balance	(110,920)		(36,288)		152,946		345,078	**[2]**

(d) **15**

Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2020							
Sales						2,335,000	**[1]**
Less Cost of Sales							
Opening stock				0			
Purchases				677,808	**[1]**		
Closing stock							
Finished goods	Units	7,320**[1]**					
	Cost	€30**[1]**	219,600				
Raw materials	Units	9,856**[1]**					
	Cost	€3**[1]**	29,568	(249,168)		(428,640)	
Gross Profit						1,906,360	
Less Expenses							
Discount				46,700	**[2]**		
Wages				313,500	**[1]**		
Variable overheads				648,240	**[1]**		
Fixed overheads				72,800	**[1]**		
Depreciation				7,200	**[1]**	(1,088,440)	
Operating profit						817,920	
Less interest						(1,410)	**[1]**
Net profit						816,510	**[2]**

(e) **6**

(i) In July and August the company has a maximum cash deficit of €110,920. The company needs to arrange a bank overdraft of €110,920 or else take corrective action by leasing the equipment, saving €12,000, or extending the period of credit received from one month to two months. The company could also try and get customers to buy more goods for cash rather than credit.

This shortfall is eliminated in September and October with a cash surplus at the end of October of €345,078. This could be used to purchase new fixed assets increasing the productive capacity of the firm or purchase investments which increase investment income and profit.

(ii) **Master Budget**

A master budget is a summary of all the other budgets and provides an overview of the operations for the planned period.

For example; a manufacturing budget, a sales budget, a cash budget.

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