Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2019

ACCOUNTING – HIGHER LEVEL

(400 marks)

WEDNESDAY 19 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 answer 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

Linken Ltd, has an authorised capital of €1,200,000 divided into 700,000 ordinary shares at €1 each and 500,000 5% preference shares at €1 each. The following trial balance was extracted from its books at 31/12/2018:

	€	€
Land and buildings at cost	850,000	
Accumulated depreciation - land and buildings		55,000
Delivery vans (cost €155,000)	120,000	
Discount (net)		15,500
Profit and loss balance 01/01/2018		71,500
Stocks on hand 01/01/2018	64,500	
Debenture interest for the first three months	6,400	
3% Investments 01/04/2018	360,000	
Patents (incorporating 5 months investment income)	43,500	
Purchases and sales	1,045,000	1,590,000
Dividends paid	55,000	
Bad debts provision		4,000
Debtors and creditors	98,200	69,100
Bank		60,000
Salaries and general expenses (including suspense)	243,100	
7% Debentures (including €60,000 issued on 01/04/2018)		300,000
Issued share capital – ordinary shares		500,000
– 5% preference shares		200,000
VAT		6,800
Advertising	31,200	
Capital reserve		45,000
	2,916,900	2,916,900

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

(i) Stock at cost on 31/12/2018 was €75,400 – this figure includes damaged stock which cost €6,000 but which now has a net realisable value of 75% of cost.

(ii) During the year, stock which had cost €7,000 was destroyed by fire. The insurance company agreed to pay compensation of €5,100.

(iii) The cost of delivery vans is to be written off on a straight line basis over 5 years. A full year's depreciation is to be charged in the year of acquisition and none in the year of disposal. Delivery vans have a 5% scrap value of the original cost.

NOTE: During the year a delivery van which had cost €25,000 in 2016 was traded in for €14,000 against a new delivery van costing €40,000. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock but was entered correctly in the bank account. This was the only entry made in respect of this transaction.

(iv) It was discovered that goods had been sent to a customer on 31/12/2018 on a 'sale or return' basis. These goods had been entered in the books as a credit sale of €7,500 which is a mark-up on cost of 20%.

(v) Patents are to be written off over a 5 year period commencing in 2018.

(vi) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct figure had been entered in the bank account) and discount received €460 entered only in the creditors account.

(vii) The company revalued land and buildings at €975,000 on 01/01/2018. The land element of this new value is €150,000. The revaluation has yet to be included in the accounts. Buildings are to be depreciated at the rate of 2% of cost per annum.

(viii) The figure for bank in the trial balance has been taken from the company's own records. However, a bank statement dated 31/12/2018 has arrived showing an overdraft of €62,280. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A cheque received from a debtor for €5,600 had been dishonoured by the bank. This debtor had been declared bankrupt and had made a credit transfer for a first and final payment of 30c for every €1 euro owed.
2. A direct debit to a local refuse company for €860 had not been recorded in the company's books.
3. A cheque for fees of €2,500 issued to a director had not been presented for payment by 31/12/2018.

(ix) The Directors recommend that:

1. Provision should be made for both investment income due and debenture interest due.
2. Provision for bad debts to be adjusted to 4% of debtors.
3. The managing director should be paid a bonus commission of 5% on all sales in excess of €1,200,000.
4. A transfer of €10,000 should be made from profit to the capital reserve.

Required:

(a) Prepare a trading and profit and loss account for the year ended 31/12/2018. (75)

(b) Prepare a balance sheet as at 31/12/2018. (45)

(120 marks)

2. **Creditors Control Account**

The creditors' ledger control account of C. Keogh showed the following balances: €65,432 cr and €524 dr on 31/12/2018. These figures did not agree with the schedule (list) of creditors' balances extracted on the same date. An examination of the books revealed the following:

(i) Cash purchases by Keogh of €600 and credit purchases of €440 had both been debited to a supplier's account.

(ii) Keogh had returned goods costing €5,500 to a supplier and entered this correctly in the books. However, a credit note arrived showing a deduction of 10% for a restocking charge. The total amount of this credit note was credited to the creditor's account. In relation to the credit note no other entry was made in the books.

(iii) A creditor had charged Keogh interest amounting to €160 on an overdue account. The only entry in the books for this interest had been €16 credited to the creditor's account. After a complaint, the interest was reduced to €135 but this reduction had not been reflected in the accounts.

(iv) An invoice received from E. Lynch showing the purchase of goods for €1,450 less trade discount 20% had been entered correctly in the appropriate day book and then posted to the incorrect side of the personal account.

(v) A credit note was received from M. Ryan, a supplier, for €195. The only entry made in the books was €159 credited to the personal account.

(vi) Keogh had a customer who was also a supplier to the business. This customer owed Keogh €545 and it was agreed that they would offset one debt against the other. However, this offset was completely omitted from the books.

Required:

(a) Prepare the adjusted creditors' ledger control account. (24)

(b) Prepare the adjusted schedule of creditors showing the original balance. (28)

(c) (i) Explain the purpose of a creditors' control account.

(ii) Explain how a contra entry may arise. (8)

(60 marks)

3. Revaluation of Fixed Assets

On 1 January 2008, Kilmartin Ltd purchased new property for €480,000 consisting of land €80,000 and buildings €400,000. The company depreciates buildings at the rate of 2% per annum using the straight line method. Land is not depreciated. It is company policy to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.

The following details were taken from the firm's books:

Jan 1 2014	Revalued property at €620,000. Of this revaluation, €120,000 was attributable to the land purchased on 01/01/2008.
Jan 1 2015	Purchased a building for €130,000. During 2015, €50,000 was paid to a building contractor for an extension to this building. The company's own employees also worked on the extension to this building and they were paid wages amounting to €25,000 by Kilmartin Ltd for their work.
Jan 1 2016	Sold for €170,000 land which had cost €80,000 but has since been revalued on 01/01/2014. In 2016, Kilmartin Ltd spent €10,000 in respect of repairs to existing buildings.
Jan 1 2017	Revalued buildings owned at €846,000 (a 20% increase in respect of each building).
Jan 1 2018	Sold for €225,000 the building purchased and extended in **2015**. The remaining buildings were revalued at €715,000.

Required:

(a) (i) Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31/12/2014 to 31/12/2018.

(Bank account and profit and loss account **not** required.)

(ii) Show the relevant extract from the balance sheet as at 31/12/2018.

(52)

(b) (i) Distinguish between capital and revenue expenditure.

(ii) Explain what is meant by a revenue reserve in the context of revaluation. (8)

(60 marks)

4. Tabular Statement

The financial position of Miller Ltd, a grocer, on 01/01/2018 is shown in the following balance sheet:

Balance Sheet as at 01/01/2018			
	Cost	**Dep. to date**	**Net**
Fixed Assets	€	€	€
Land and buildings	660,000	33,000	627,000
Delivery vans	85,000	38,000	47,000
	745,000	71,000	674,000
Current Assets			
Stock		57,120	
Debtors (less provision 5%)		78,280	
		135,400	
Less creditors: **amounts falling due within 1 year**			
Creditors	64,000		
Bank	24,000		
Expenses due	7,000	(95,000)	40,400
			714,400
Financed by:			
Capital and Reserves			
Authorised - 800,000 ordinary shares @ €1 each			
Issued - 450,000 ordinary shares @ €1 each		450,000	
Share premium		59,000	
Profit and loss balance		205,400	714,400
			714,400

The following transactions took place during 2018:

Jan. Miller Ltd decided to revalue the land and buildings on 01/01/2018 at €800,000. The land element of the new value is €130,000.

Feb. Miller Ltd bought an adjoining business on 01/02/2018 which included buildings €120,000, delivery vans €35,000, debtors €15,300 and creditors €11,000. The purchase price was discharged by granting the seller 140,000 shares in Miller Ltd at a premium of 30c per share.

Mar. Management decided that the provision for bad debts should be reduced to 4% of debtors at the end of March.

May Received a bank statement at the end of May 2018 showing a direct debit of €4,800 to cover insurance for the year ended 30/4/2019 and a credit transfer received of €8,800 to cover rent received in advance for the period May 1 2018 to March 31 2019.

Sept. A dividend of 5c per share was paid on all issued shares.

Nov. A payment of €840 was received from P. Ryan, a debtor, whose debt had been previously written off and who now wishes to trade with Miller Ltd again. This represents 70% of the original debt and the debtor has undertaken to pay the remainder of the debt in February 2019.

On the same day, goods to the value of €780 were sold on credit to Ryan. This was a mark-up on cost of 20%.

Dec. The depreciation charge on buildings for the year is to be 2% of book value. The depreciation charge is to be calculated from date of revaluation or date of purchase as appropriate. The total depreciation charge on delivery vans for the year was €21,000.

Required:

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2018.

(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 Shannon plc, a company involved in the renewable energy industry, for the year ended 31/12/2018. The company has an authorised capital of €900,000 made up of 600,000 ordinary shares at €1 each and 300,000 8% preference shares at €1 each.

Shannon plc has already issued 500,000 ordinary shares and 250,000 8% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2018		
	€	€
Sales		960,000
Opening stock	50,000	
Closing stock	60,000	
Costs of goods sold		(760,000)
Operating expenses for year		(95,000)
Interest for year		(15,000)
Net profit for year		90,000
Dividends paid		(55,000)
Retained profit		35,000
Profit and loss balance 01/01/2018		52,000
Profit and loss balance 31/12/2018		87,000

Ratios and information for year ended 31/12/2017	
Earnings per ordinary share	10c
Dividend per ordinary share	5c
Interest cover	4.3 times
Acid test ratio	0.86:1
Market value of one ord. share	€1.25
Return on capital employed	5.8%
Gearing	56%
Dividend cover	2 times
Dividend yield	4%

Balance Sheet as at 31/12/2018		
	€	€
Fixed Assets		811,000
Investments (market value 31/12/2018, €250,000)		210,000
		1,021,000
Current Assets (including debtors €78,000)	150,000	
Less creditors: **amounts falling due within 1 year**		
Trade creditors	(84,000)	66,000
		1,087,000
Financed by:		
6% Debentures (2025 secured)		250,000
Capital and Reserves		
Ordinary shares @ €1 each	500,000	
8% Preference shares @ €1 each	250,000	
Profit and loss balance	87,000	837,000
		1,087,000

Market value of one ordinary share on 31/12/2018 is **€1.35**.

(a) **You are required to calculate the following for 2018**: (where appropriate calculations should be made to **two** decimal places).

(i) Cash sales if the period of credit given to debtors is 1.5 months.

(ii) Dividend yield.

(iii) Dividend cover.

(iv) Return on capital employed.

(v) Price earnings ratio. (50)

(b) Indicate if the ordinary shareholders 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) Shannon plc is considering acquiring a solar panel company, Gener8 Ltd in 2019. Gener8 Ltd has supplied the following balance sheet information for 31/12/2018.

Closing stock	€47,000
Creditors	€45,000
Debtors	€39,000
Expenses accrued	€15,000
Expenses prepaid	€13,000
Bank overdraft	€16,500

Based on the information given in the above table:

(i) Calculate the current ratio for Gener8 Ltd.

Calculate the acid test ratio for Gener8 Ltd.

(ii) Using the calculated figures explain why it is important for Shannon plc to analyse the liquidity position for Gener8 Ltd.

(10)
(100 marks)

6. Club Accounts

Included in the assets and liabilities of Crest Wood Golf Club on 01/01/2018 were the following:

Clubhouse and course €550,000, bar stock €5,800, equipment at cost €26,000, investment interest due €400, bar debtors €480, life membership €45,000, bar creditors €750, wages due €1,640, levy reserve fund €30,000, subscriptions received in advance €1,900.

All fixed assets have 2 years accumulated depreciation on 01/01/2018.

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2018.

Receipts and Payments account for the year ended 31/12/2018

Receipts	**€**	**Payments**	**€**
Subscriptions	126,900	Balance 01/01/2018	7,300
Catering receipts	8,500	Bar purchases	38,700
Interest on 4% investments	2,800	Catering purchases	4,900
Bar receipts	66,200	Purchase of equipment on 01/04/2018	15,000
Entrance fees	12,000	Sundry expenses	81,500
Annual sponsorship	7,400	Competition prizes	20,100
National Lottery grant	15,500	Coaching expenses	5,600
Competition receipts	28,000	Bank loan and 18 months' interest at 3% per annum on 31/05/2018	20,900
Transfer from building society	10,000	Balance 31/12/2018	83,300
	277,300		277,300

You are given the following additional information and instructions:

(i) Bar stock (including catering stock €400) on 31/12/2018 was €13,600.

(ii) Bar debtors and bar creditors on 31/12/2018 were €500 and €1,230 respectively.

(iii) Investment interest due on 31/12/2018 was €300.

(iv) Subscriptions include:

1. Five new life memberships in addition to the fifteen from 2017.
2. Subscriptions for 2019 amounting to €900.
3. Levy for 2018 of €50 each from 600 members.
4. Levy for 2017 of €50 each due from 20 members.

(v) The club has decided that life membership is to be credited to income over a 10 year period commencing in 2018.

(vi) The grant from the National Lottery was received on a once-off basis to support the day-to-day activities of the club. It is to be treated as a revenue item.

(vii) Equipment owned on 31/12/2018 is to be depreciated at the rate of 20% of cost per annum. Clubhouse and course are to be depreciated by 2% of cost.

(viii) Wages due on 01/01/2018 were owed to the club coach. Provide for a further €2,500 wages due on 31/12/2018.

Required:

(a) Show the club's accumulated fund (capital) on 01/01/2018. (30)

(b) Show the income and expenditure account for the year ending 31/12/2018. (35)

(c) Show the club's balance sheet as at 31/12/2018. (25)

(d) The club would like to build a new driving range at a cost of €350,000.

Outline the options available to the club in funding this project with reference to the accounts.

(10)

(100 marks)

7. Cash Flow Statement

The following are the balance sheets of Jackson plc as at 31/12/2017 and 31/12/2018.

Balance Sheets as at	**31/12/2018**		**31/12/2017**	
Intangible Assets	€	€	€	€
Goodwill		55,000		66,000
Fixed Assets				
Fixed assets at cost	650,000		550,000	
Less accumulated depreciation	(125,000)	525,000	(80,000)	470,000
Financial Assets				
Quoted investments		40,000		40,000
		620,000		576,000
Current Assets				
Stock	107,500		89,000	
Cash	4,000		850	
Debtors	54,000		56,000	
Provision for bad debts	(1,600)		(1,200)	
Government securities	27,000		--------	
Investment interest due	2,100		1,800	
	193,000		146,450	
Less creditors: amounts falling due within 1 year				
Creditors	64,000		72,000	
Bank overdraft	15,000		25,000	
Taxation	55,000		51,200	
Interest payable due	1,400		2,000	
	135,400	57,600	150,200	(3,750)
		677,600		572,250
Financed by:				
Creditors: amounts falling due after 1 year				
8% Debentures	120,000		80,000	
Capital and Reserves				
Ordinary shares @ €1 each	510,000		450,000	
Share premium	12,000		-----------	
Profit and loss account	35,600		42,250	
		677,600		572,250

The following information is also available:

(i) The shares were issued at €1.20 per share on 01/01/2018.

(ii) Fixed assets which cost €70,000 and on which total depreciation of €27,000 had been provided, were sold for €41,300.

(iii) Debentures, €40,000, were issued on 30/09/2018.

(iv) The total dividend paid for the year was 6c per share.

(v) Taxation charged on profits for the year was €51,000.

(vi) The quoted investments yield a fixed return of 6% per annum.

(vii) Goodwill is to be amortised over a six year period, commencing in 2018.

Required:

(a) (i) Prepare an abridged profit and loss account to ascertain the operating profit for the year ending 31/12/2018.

(ii) Prepare the cash flow statement of Jackson plc for the year ended 31/12/2018 including reconciliation statements.

(88)

(b) (i) Explain what is meant by a non-cash item.

Give **three** examples, using the figures provided.

(ii) Explain **two** items that affect cash but not profit.

(12)

(100 marks)

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

8. Overhead Apportionment/Job Costing

Rooney Ltd has two production departments, X and Y and two ancillary service departments, 1 and 2.

The following costs relate to 2019.

	Total	Production X	Production Y	Service 1	Service 2
	€	€	€	€	€
Indirect materials	480,000	265,000	215,000	--------	--------
Indirect labour	420,000	280,000	140,000	--------	--------
Machine maintenance	18,000				
Depreciation on factory buildings	36,000				
Factory light and heat	24,000				
Factory cleaning	10,000				
Factory canteen	8,750				

The following information relates to the production and service departments:

	Total	Production X	Production Y	Service 1	Service 2
Volume in cubic metres	9,000	4,500	2,250	1,500	750
Floor area in square metres	2,000	1,000	600	200	200
Number of employees	700	300	300	100	--------
Book value of buildings (€)	900,000	450,000	225,000	150,000	75,000
Machine hours	80,000	48,000	32,000	----------	---------
Labour hours	40,000	10,000	30,000	----------	---------

Service departments are to be transferred to the production departments on the following percentage basis:

	Production X	Production Y
Service 1	60%	40%
Service 2	55%	45%

Job No. 925 has just been completed, the details are:

	Direct Materials	Direct Labour	Machine Hours	Labour Hours
	€	€		
Production X	8,500	3,000	100	50
Production Y	3,800	4,900	120	200

The company budgets for a profit margin of 20%.

Required:

(a) Calculate the overhead to be absorbed by each department showing clearly the basis of apportionment used.

(b) Transfer the service department costs to production departments X and Y.

(c) Calculate a suitable overhead absorption rate for each department.

(d) Calculate the selling price of Job No. 925.

(e) (i) Explain why it is necessary to transfer service department overheads to production departments.

(ii) Distinguish between the allocation, apportionment and absorption of costs.

(80 marks)

9. Production Budgeting

Winston Ltd recently completed its annual sales forecast to the end of 2020. It expects to sell two products – Dark at €250 and Light at €300.

All stocks are to be increased by 10% from their opening levels by the end of 2020 and are valued using the FIFO method.

	Dark	**Light**
Expected sales	12,600 units	7,500 units

Stocks of finished goods on 01/01/2020 are expected to be:

Dark	650 units at €180 each
Light	420 units at €240 each

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Dark	**Light**
Material 1	5 kgs	7 kgs
Material 2	6 kgs	4 kgs
Skilled labour	6 hours	8 hours

Stocks of raw materials on 01/01/2020 are expected to be:

Material 1	6,500 kgs @ €2.80 per kg
Material 2	5,500 kgs @ €5.10 per kg

The expected prices for raw materials during 2020 are:

Material 1	€3.00 per kg
Material 2	€6.00 per kg

The skilled labour rate is expected to be €16 per hour.

Production overhead costs are expected to be:

Variable	€5.50 per skilled labour hour
Fixed	€681,630 per annum

Required:

(a) Prepare a production budget (in units).

(b) Prepare a raw materials purchases budget (in units and €).

(c) Prepare a production cost/manufacturing budget.

(d) Prepare a budgeted trading account (you are required to calculate the unit cost of budgeted closing stock of both products).

(e) Explain **three** reasons for product costing.

(80 Marks)