Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2013

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.

75

Question 1

Manufacturing Account of Marjam Ltd for the year ended 31/12/2012 [1]

			€		€	
Opening stock of raw materials					34,400	[1]
Purchases of raw materials	**W 1**				991,600	[4]
Carriage on raw materials					4,600	[2]
					1,030,600	
Less Closing stock of raw materials					(35,700)	[1]
Cost of raw materials consumed					994,900	
Direct Costs:						
Factory wages	**W 2**		178,800	[2]		
Hire of special equipment			6,100	[2]	184,900	
Prime Costs					**1,179,800**	
Factory Overheads:						
General factory overheads			31,400	[2]		
Depreciation - Plant and machinery	**W 3**		29,325	[3]		
Repairs to plant and machinery	**W 4**		2,000	[2]		
Loss on sale of machine	**W 5**		500	[4]	63,225	
Factory cost					1,243,025	
Add Work in progress 1/1/2012					23,700	[2]
Less Work in progress 31/12/2012					(27,400)	[2]
					1,239,325	
Less Sale of scrap materials					(3,000)	[2]
Cost of manufacture					1,236,325	

Trading and Profit and Loss Account for the year ending 31/12/2012

		€		€		€	
Sales	**W6**					1,533,000	[6]
Less Cost of Sales							
Opening stock of finished goods				69,500	[2]		
Cost of manufacture				1,236,325	[2]		
				1,305,825			
Less Closing stock finished goods	**W7**			(82,500)	[6]	(1,223,325)	
Gross Profit						309,675	
Less Expenses							
Administration							
Administration expenses	**W8**			26,900	[6]		
Selling and Distribution							
Provision for bad debts	**W9**	3,704	[3]				
Bad debts written off	**W10**	3,200	[2]				
Selling expenses	**W11**	36,300	[4]	43,204		(70,104)	
						239,571	
Add Operating Income							
Discount						8,400	[2]
Operating profit						247,971	
Investment Income	**W12**					13,600	[2]
						261,571	
Less Debenture interest	**W13**					(18,000)	[2]
Net Profit						243,571	
Less Dividends paid						(59,000)	[1]
Retained Profit						184,571	
Less Profit and Loss balance 1/1/2012						(18,100)	[2]
Profit and Loss balance 31/12/2012						166,471	[5]

Question 1

45

Balance Sheet as at 31/12/2012

		Cost		Acc.Dep		Net		Total	
Intangible Fixed Assets		**€**		**€**		**€**		**€**	
Patents								22,600	[2]
Tangible Fixed Assets									
Buildings		880,000	[2]	60,000	[1]	820,000			
Plant & machinery	**W14 & 15**	301,000	[2]	107,825	[3]	193,175			
		1,181,000		167,825		1,013,175		1,013,175	
Financial Assets									
4% Investments								340,000	[2]
								1,375,775	
Current Assets									
Stock Raw materials		35,700	[2]						
Work in progress		27,400	[2]						
Finished goods		82,500	[2]	145,600					
Debtors	**W16**	92,600	[6]						
Less provision		(3,704)	[1]	88,896					
Investment income due				10,200	[2]	244,696			
Less Creditors: amounts falling due within one year									
Creditors	**W17**			98,380	[4]				
Bank	**W18**			40,020	[4]				
Universal social charge				2,100	[2]				
Debenture interest due				13,500	[2]	(154,000)		90,696	
								1,466,471	
Financed by									
Creditors: amounts falling due after more than one year									
9% Debentures								200,000	[2]
Capital and Reserves				**Authorised**		**Issued**			
Ordinary shares @ €1 each				1,000,000	[1]	600,000	[1]		
10% Preference shares @ €1 each				800,000	[1]	500,000	[1]		
				1,800,000		1,100,000			
Profit and Loss balance						166,471		1,266,471	
Capital Employed								1,466,471	

Question 1 - Workings

1.	Purchases Raw Materials	1,035,000 – 400 – 43,000	991,600
2.	Wages	180,400 – 1,600	178,800
3.	Depreciation plant and machinery	25,000 + 500 + 3,825 27,000 + 2,325 6,750 + 22,575	29,325
4.	Repairs plant and machinery	1,600 + 400	2,000
5.	Loss on sale of machinery	[20,000 – 11,500] – 8,000	500
6.	Sales	1,540,000 – 6,000 – 1,000	1,533,000
7.	Closing stock - Finished goods	79,400 – 1,900 + 5,000	82,500
8.	Administration		27,600 + 300 – 1,000 26,900
9.	Provision for bad debts	4% x 92,600	3,704
10.	Bad debts	4,000 – 800	3,200
11.	Selling expenses	32,900 + 3,400	36,300
12.	Investment Income 3,400 + 10,200	4% x 340,000	13,600
13.	Debenture Interest Debenture Interest due	9% x 200,000	18,000 13,500
14.	Plant & machinery at cost	270,000 + [51,000 – 20,000]	301,000
15.	Provision for Dep – Plant & machinery	90,000+ 29,325 – 11,500	107,825
16.	Debtors	102,600 – 4,000 – 6,000	92,600
17.	Creditors	98,200 + 180	98,380
18.	Bank account [o/d]	41,000 – 180 – 800	40,020
		39,720 + 300	40,020

Penalties: 1 mark for the omission of expense heading 'Selling and Distribution'
1 mark for the omission of 'Total Cost' figure for fixed assets

Question 2

(a) **60**

Vehicles Account

01/01/2011	Balance b/d (W1)	195,000	[1]	01/09/2011	Disposal	65,000	[1]
01/9/2011	Bank No 4	75,000	[1]	31/12/2011	Balance c/d	205,000	[1]
		270,000				270,000	
01/01/2012	Balance b/d	205,000		01/04/2012	Disposal	70,000	[1]
01/04/2012	Bank No 5	86,000	[1]	31/12/2012	Balance c/d	221,000	
		291,000				291,000	
01/01/2013	Balance B/D	221,000					

(b)

Provision for Depreciation Account

[1]							
01/09/2011	Disposal (W3)	45,500	[4]	01/01/2011	Balance b/d (W2)	77,750	[6]
31/12/2011	Balance c/d	62,000		31/12/2011	Profit & Loss (W4)	29,750	[8]
		107,500				107,500	
[1]							
01/04/2012	Disposal (W5)	27,125	[2]	01/01/2012	Balance b/d	62,000	
31/12/2012	Balance c/d	67,425	[2]	31/12/2012	Profit & Loss (W6)	32,550	[8]
		94,550				94,550	
				01/01/2013	Balance b/d	67,425	

(c)

Disposal of Vehicles Account

01/09/2011	Vehicle No 1	65,000	[1]	Trade-in allowance	20,000	[2]
31/12/2011	Profit & Loss a/c	500	[1]	Provision for Depreciation	45,500	[2]
		65,500			65,500	
01/04/2012	Vehicle No 3	70,000	[1]	Compensation – Insurance	25,000	[2]
31/12/2012	Profit & Loss a/c	1,125	[1]	Bank	19,000	[2]
				Provision for Depreciation	27,125	[2]
		71,125			71,125	

Number	Cost	Dep to 1/1/2011	Dep for 2011	Dep for 2012	Total Dep	
1	50,000	30,000	5,000	-	35,000	
Unit	15,000	9,000	1,500	-	10,500	**45,500 (W3)**
2	60,000	24,750	9,000	9,000		
3	70,000	14,000	10,500	2,625		**27,125 (W5)**
4	75,000		3,750	11,250		
5	86,000		-	9,675		
		77,750 (W2)	**29,750 (W4)**	**32,550 (W6)**		

(W1) 01/01/2011 - Cost Balance [50,000 + 15,000 + 60,000 + 70,000] = **195,000**

(d)

Why make a charge for depreciation [4]
Depreciation is an expense. Failure to include depreciation in the final accounts will result in the profits being overstated and the net assets in the balance sheet will not show a true value.

Why would a company choose one method over another [4]
A method of depreciation is chosen by a company because of its policy on depreciation and ensuring that the consistency concept is applied when preparing accounts.

Straight Line Method is where the same amount of the cost of the asset is written off each year. It is appropriate in the case of an asset that remains in the business over a long period of time and loses value slowly, for example Buildings, (assets that generate profit over many years).

Reducing Balance Method is where a fixed percentage of the value of the asset is written off each year. The amount written off is high in early years and reduces each year until written off. This method is appropriate in the case of an asset which loses most of its value in the years immediately after purchase e.g. vehicles, computer, equipment etc., (assets that become obsolete quickly because of changes in technology).

The general principle of providing depreciation is based on the matching concept.

Question 3 **60**

Assets	1/1/2012	Jan	Feb	Apr	May	June	Aug	Dec	Dec	31/12/2012
Goodwill	45, 000	41,000 [2]								86,000
Land & Buildings	727,000	350,000 [1]	.	123,000 [2]						1,200,000
Depreciation	(54,000)			54,000 [2]				(15,300) [2]		(15,300) [1]
Delivery Vans	90,000	70,000 [1]	(14,500) [2]			10,000 [2]				155,500
Depreciation	(40,000)		5,000 [2]			17,000 [2]		(28,000) [1]		(46,000)
Stock	91,600	25,000 [1]					(360) [2]			116,240
Debtors	55,800						1,050 [2]			56,850
	915,400	486,000	(9,500)	177,000	-	27,000	690	(43,300)	-	1,553,290
Liabilities										
Ord. shares	600,000	380,000 [1]								980,000
Share Premium	80,000	76,000 [2]								156,000
P & L Balance	140,000		(600) [1]			2,500 [1]	3,090 [1]	(43,300) [1]	(5,600) [1] 9,000 [1]	105,090 [4]
Creditors	75,400	30,000 [1]	(8,900) [2]							96,500
Bank	15,800				8,400 [1] (9,900) [1]	24,500 [2]	(2,400) [2]			36,400 [1]
Expenses due	4,200				(8,400) [2]				5,600 [2]	1,400 [1]
Revaluation Reserve				177,000 [2]						177,000
Rent Receivable					9,900 [2]				(9,000) [2]	900 [1]
	915,400	486,000	(9,500)	177,000	-	27,000	690	(43,300)	-	1,553,290

Question 4

(a) **25**

Accumulated Fund 1/1/2012

		€		€	
Assets					
Clubhouse		680,000	[1]		
Bar stock		2,200	[1]		
Equipment		23,000	[1]		
Bar debtors		421	[1]		
Investments	**W 1**	30,000	[2]		
Bank current account		11,300	[2]		
Levy due (80 x15)		1,200	[2]	748,121	
Less Liabilities					
Life membership		25,000	[2]		
Bar creditors		1,600	[1]		
Levy reserve fund		12,000	[2]		
Wages due		2,800	[1]		
Loan		40,000	[1]		
Loan interest due	**W 2**	3,300	[3]		
Subscriptions prepaid		1,400	[2]	86,100	
Accumulated Fund/Capital 1/1/2012 [1]				662,021	[2]

(b) **25**

Income & Expenditure Account for year ended 31/12/2012

			€		€	
Income						
Bar profit		**W 1**	13,999	[4]		
Investment interest		**W 2**	1,200	[2]		
Arena rent			15,000	[1]		
Catering profit	[12,400 - 9,900]		2,500	[1]		
Annual sponsorship			73,000	[1]		
Lotto	[52,500 – 7,600]		44,900	[1]		
Subscriptions		**W 4**	45,800	[5]		
Life membership		**W 5**	6,000	[2]	202,399	
Less Expenditure						
Sundry expenses	[103,600 - 2,800]		100,800	[2]		
Coaching expenses			4,600	[1]		
Loan interest		**W 3**	1,500	[1]		
Depreciation - Equipment			12,800	[1]		
Depreciation – Clubhouse and arena			13,600	[1]	(133,300)	
Surplus of Income over Expenditure for the year					69,099	[2]

(c) **(i)** [3]

Sometimes non-profit making organisations such as a club prepare a profit and loss account for activities that are carried out to make a profit e.g. running a club lotto, dances, bar, restaurant etc. All expenses and revenues relating to the particular activity are entered in a special purpose profit and loss account and the profit/loss is then transferred to the income and expenditure account.

(ii) [7]

The proposed levy would raise €150,000 over the next 5 years [200 x 150 x 5]
The club has funds amounting to:

Investments	30,000
Building society	28,000
Cash	4,310
	62,310

As a member I would make the case:
The proposed levy of €200 [120 +80] amounts to 66% of the annual subscription.
An increased levy would discourage new members and perhaps cause a drop in membership.

The club is capable of generating enough income from within as it has a surplus of income amounting to €69,099 and it is financially sound as it has a cash balance of €4,310, building society investment of €28,000 and 4% government investments €30,000 totalling €62,310.

Although a sizeable proportion of the surplus is provided by sponsorship of €73,000 and it cannot be guaranteed in future years it should be noted that this figure is well below the non-recurring capital amounts paid during the year i.e. equipment €41,000 and loan €44,800 amounting to €85,800.

The club should use the cash and investments totalling €62,310 and borrow the remainder of €90,000 approx or continue with current levy of €80 for 5 years plus use current funds and borrow €28,000 approx.
The improved facilities could:

Increase the rent earned from the arena
Increase membership
Encourage increased advertising income

Workings:

1. Bar Trading Account

	€	€		
Sales [42,410 + (190 – 421)]		42,179		
Less Cost of sales				
Stock 1/1/2012	2,200			
Add Purchases [28,700 + (1,330 – 1,600)]	28,430			
	30,630			
Less Closing Stock	(2,450)	(28,180)		
Bar Profit			=	13,999

2.	Investments	[4% = 1,200]	100%	=	30,000
	Investment interest	[900 + 300]		=	1,200
3.	Loan interest due 1/1/2012	[4,800 – 1,500]		=	3,300
4.	Subscriptions	[65,000 + 1,400 – 5,000 – 2,400 – 1,200 – 12,000]		=	45,800
5.	Life membership	1/5 [25,000 + 5,000]		=	6,000

Question 5

(a) **50**

(i) Opening stock $\frac{\text{Cost of sales}}{\text{Average stock}}$ = 10 = $\frac{852{,}000}{10 \text{ x Av stock}}$

Average stock = 85,200

Opening stock = (85,200 x 2) less 31,500 = **€138,900** [12]

(ii) Earnings per share

$\frac{\text{Net profit after preference dividend}}{\text{Number of ordinary shares}}$ = $\frac{26{,}000}{550{,}000}$ **4.73c** [10]

(iii) Dividend Yield

$\frac{\text{Dividend Per Share x 100}}{\text{Market price}}$ = $\frac{3.64\text{c x } 100}{85\text{c}}$ **4.28%** [12]

(iv) Period to recoup share

$\frac{\text{Market price}}{\text{Earnings per share}}$ = $\frac{85\text{c}}{4.73\text{c}}$ **18 years** [8]

17.97 years

(v) Interest Cover

$\frac{\text{Net profit before interest}}{\text{Debenture Interest}}$ = $\frac{31{,}000 + 16{,}000}{16{,}000}$

= $\frac{47{,}000}{16{,}000}$ **2.94 times** [8]

(b)

40

I would advise my friend **not** to borrow money to purchase 200,000 shares in Dantzig plc. [3]

Market price/value of shares [8]
The share price is on a downward slide. The trend is negative. The shares can be purchased at 80c. This is below the market price of 85c and further below market price in 2011 of 90c. This is a worrying trend and should **not** be ignored. It indicates a lack of confidence by the stock market.
The purchase price may seem good value but one should be cautious and question why such a large block of the shares is available.
By purchasing 200,000 shares a shareholder would own 36% of the company and may well have to bid for the remaining 64% of the shares
Price earnings ratio is 18 years and in 2011 it was 16.4 years. This is not very appealing if one is seeking a quick return on investment.

Dividend Policy [8]
The dividend yield was 4.28% in 2012 but was 5.22% in 2011.
The dividend cover in 2012 was 1.3 times and in 2011 was 1.17 times. Although the dividend per share has been reduced from 4.7c in 2011 to 3.64c in 2012, Dantzig plc is paying out too much of profits in dividends.
In the short-term the interest on borrowings of €160,000 would amount to €12,800. The income available from dividends is €7,280. This annual shortfall of €5,620 would have to be funded by the purchaser.
The real return to ordinary shareholders would be 5.56% compared to 8% interest on borrowed money.

Profitability [6]
Dantzig plc is not a very profitable firm. Its Return on Capital Employed was 6.1% in 2011 and disimproved to 5.37% in 2012. This trend is a cause for concern and if it continues the firm could find itself in a very serious position.
It indicates that the firm is making poor use of its resources. Dantzig is currently earning 5.37% on capital employed but is paying 8% on €200,000 {debentures] of this investment. Although the ROCE is above the return from risk free investments of [1% to 3%] it leaves little return for risk taking but perhaps it is satisfactory in the current economic climate.
It will take 22 years for the friend to receive back the cost of the shares at the current payout rate. It will take longer if dividends decline further.

Liquidity [6]
The company has a liquidity problem. The quick ratio in 2011 was 0.85 to 1 but this deteriorated to 0.75 to 1 in 2012. The company has only 75c available to pay every €1 owed in the short term.
The deterioration of the ratio indicates a difficulty in paying debts and possible future interest.
This would be a worry for both current shareholders and purchaser as it could result in the company becoming unable to pay interest and dividends even though it had made a profit.

Gearing [6]
Dantzig plc is a low geared company. Its gearing is 34.24%. Its gearing in 2011 was 30%.
This is a worsening situation as the gearing has risen by 4.24% and gives more control to outside investors. If this trend continues they could be at risk from outside investors. However, at the moment, there is little risk from outside investors.
The interest cover is 2.94 times and this shows that the company has the ability to meet its interest charges. However the cover has dropped from 4 times in 2011 and this reveals that the profit has dropped from €64,000 in 2011 or by 26.6%. If this trend continues there is a risk that the company will not be able to meet its interest charges.

Sector [3]
Dantzig plc is in the food processing sector. In the short term the sector is under pressure from cheap imports and shortage of ready cash in the economy.
However in the long-term the prospects are more encouraging. It is expected that demand for food will increase due to food shortages as the world population continues to grow.

Or

Investment Policy and Long-term liability.
The investments made by the company cost €180,000. These investments now have a market value of €80,000. This shows poor management of resources although one must take into account the economic downturn globally in 2012. If these investments are sold in the near future there will be a loss of €100,000. This will reduce the real value of assets and consequently the value of shareholders funds. The debentures are due to be repaid in 2015. This will require further borrowing or sale of fixed assets.

(c)

10

AB Foods

The Return on Capital Employed in AB Foods is 8%. This is better than XY Traders at 6% and also better than Dantzig plc at 5.37%.
The current ratio of AB Ltd of 3.2 to 1 is very high. This is possibly indicating excess stock. This is well above that of XY Traders of 1.9 to 1. This indicates poor stock control.
Acid Test ratio of 0.6 to 1 is low. It is well below the ratios of both XY Traders and Dantzig plc. This indicates a shortage of cash.

XY Traders
The Return on Capital Employed of 6% is lower than in AB Foods but higher than Dantzig plc at [5.37%]. Both these figures are below the cost of borrowing of 8%.
Current Ratio is good and within range of accepted norms.
Acid Test ratio at 1.3 to 1 is better than AB Foods at 0.6 to 1, but high. This high ratio indicates high debtors or excess cash. Either there is poor cash management or poor debt collection.

My advice to Dantzig plc is to purchase XY Traders

Question 6

40

(a) Profit and Loss Account of Moorfields plc for the year ended 31/12/2012

		€	
Turnover		2,040,600	[2]
Cost of sales	**W 1**	(1,253,000)	[5]
Gross profit		787,600	
Distribution costs	**W 2**	(240,040)	[4]
Administrative expenses	**W 3**	(276,560)	[6]
		271,000	
Other Operating income	**W 4**	96,500	[4]
Operating profit		367,500	
Investment income	**W 5**	12,000	[3]
Profit on sale of land		80,000	[2]
		459,500	
Interest payable	**W 6**	(10,000)	[3]
Profit on ordinary activities before taxation		449,500	[1]
Tax on profit on ordinary activities		(60,000)	[2]
Profit on ordinary activities after taxation		389,500	
Dividend paid		(50,000)	[2]
Profit retained for year		339,500	
Profit brought forward at 1/1/2012		85,000	[2]
Profit carried forward at 31/12/2012		424,500	[4]

Penalties: Up to 5 marks for incorrect sequence

26

Balance Sheet of Moorsfields plc as at 31/12/2012

		€		€		€	
Fixed Assets							
Intangible Assets	**W 7**					30,000	[2]
Tangible Assets						1,086,000	[2]
Financial Assets						300,000	[1]
						1,416,000	
Current Assets							
Stock		85,000	[1]				
Debtors	**W 8**	235,300	[3]				
Bank		57,800	[1]	378,100			
Creditors: amounts falling due within 1 year			[1]				
Trade Creditors		184,000	[2]				
Taxation	**W 9**	134,000	[2]				
Other Creditors	**W 10**	43,500	[3]	(361,500)			
Net current assets						16,600	
Total assets less current liabilities						1,432,600	
Creditors: amounts falling due after more than 1 year							
5% Debentures						200,000	[2]
Capital and Reserves							
Issued shares				650,000	[2]		
Revaluation Reserve	**W 11**			158,100	[3]		
Profit carried forward				424,500	[1]	1,232,600	
						1,432,600	

Notes to the Accounts

19

1. **Accounting policy notes for tangible fixed assets and stocks** [5]

Tangible fixed assets

Buildings were revalued at the end of 2012 and have been included in the accounts at their revalued 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
Delivery vans	15% of cost

Stocks - Stocks are valued on a First in First out basis (FIFO) at the lower of cost and net realisable value.

2. **Operating Profit** [5]

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	56,600
Patent amortised	6,000
Directors remuneration	35,000
Auditors fees	6,500

3. **Interest payable** [2]

Interest payable on Debentures [Repayable during years 2017/2018] 10,000

4. **Tangible fixed Assets** [7]

Assets	Land & Buildings	Vehicles	Total
Value 1/1/2012	950,000	260,000	1,210,000
Disposal	(70,000)		(70,000)
Revaluation surplus	90,000		90,000
Value 31/12/2012	970,000	260,000	1,230,000
Depreciation:			
Balance 1/1/2012	50,500	105,000	155,500
Depreciation charge for year	17,600	39,000	56,600
	68,100	144,000	212,100
Transfer on revaluation	(68,100)		(68,100)
Depreciation 31/12/2012	Nil	144,000	144,000
Net Book Value 1/1/2012	899,500	155,000	1,054,500
Net Book Value 31/12/2012	970,000	116,000	1,086,000

Workings:

W 1	Cost of Sales	72,000 + 1,260,000 - 85,000 + 6,000	=	1,253,000
W 2	Distribution Costs	194,000 + 7,040 + 39,000	=	240,040
W 3	Administrative Expenses	206,000 +6,500 +35,000 +10,560 +18,500	=	276,560
W 4	Other operating income	64,000 + 14,000 + 18,500	=	96,500
W 5	Investment Income	4,200 + 7,800	=	12,000
W 6	Debenture interest payable	5% x 200,000	=	10,000
	Debenture interest due	10,000 - 8,000	=	2,000
W 7	Patents	$\frac{60,000}{10}$ = 6,000. 36,000 – 6,000	=	30,000
W 8	Debtors	240,000 – 12,500 + 7,800	=	235,300
W 9	Taxation	74,000 + 60,000	=	134,000
W 10	Other creditors	2,000 + 6,500 + 35,000	=	43,500
W11	Revaluation Reserve	90,000 + 50,500 + 17,600	=	158,100

(b)

15

Bodies/Institutions [4]
- The Government – Legislation
- The European Union – Directives
- Accounting Standards Board – FRS's and SSAP's
- The Stock Exchange – Listing Rules

What is an Audit? [4]
An audit is an examination of the financial statements of an enterprise by an appointed auditor. The Audit is conducted by an auditor who is independent. The auditor expresses an opinion and certifies whether the accounts give a true and fair view of the financial position of the business.
The Companies Acts require the auditor to certify that the accounts give a *true and fair view* of the financial position of the business.

A qualified Auditor's Report [7]
A qualified auditor's report is when an auditor in his/her opinion is ***not satisfied*** or is unable to conclude that all or any of the following apply:
- The financial statements give a true and fair view of the state of affairs of the company at the end of the year.
- The financial statements are prepared in accordance with the Companies Acts.
- All the information necessary for the audit was available.
- The information given by the directors is consistent with the financial statements.
- The net assets are more than 50% of the called up capital.

The report will state the elements of the accounts that are unsatisfactory.

Question 7

(a) **52**

Trading and Profit and Loss account for the year ending 31/12/2012

		€		€	
Sales	**W 1**			205,770	[10]
Less Cost of sales					
Opening stock		14,300	[2]		
Add Purchases	**W 2**	78,140	[7]		
		92,440			
Less Closing stock		(15,000)	[2]	(77,440)	
Gross Profit				128,330	
Less Expenses					
General expenses	**W 3**	21,300	[4]		
Light and heat	**W 4**	3,555	[7]		
Interest	**W 5**	3,600	[2]		
Insurance	**W 6**	2,680	[6]		
Charitable Organisation		2,500	[2]		
Rent	**W 7**	4,750	[4]	(38,385)	
Net Profit				89,945	[6]

(b) **40**

Balance sheet as at 31/12/2012

		€		€		€	
Intangible Assets							
Goodwill	**W 8**					20,670	[3]
Tangible fixed Assets							
Buildings				234,000	[2]		
Vehicles				32,000	[1]		
Equipment				30,000	[1]	296,000	
						316,670	
Current Assets							
Closing Stock		15,000	[1]				
Stock of oil		500	[1]				
Debtors		16,600	[1]				
Bank	**W 10**	10,100	[7]				
Cash		550	[1]				
Insurance prepaid		750	[3]				
Rent prepaid		6,650	[2]	50,150			
Less Creditors: amounts falling due within 1 year							
Creditors		14,300	[1]				
Electricity due		640	[1]				
Interest due		1,200	[2]				
Loan instalment due		12,000	[2]	(28,140)		22,010	
						338,680	
Financed by:							
Loan						60,000	[2]
Capital				205,000	[2]		
Capital introduced				3,600	[3]		
Net Profit				89,945			
				298,545			
Less Drawings	**W 9**			19,865	[4]	278,680	
						338,680	

(c) Additional information **8**

General/Nominal Ledger Accounts
Trial balance
Total sales figure [credit and cash]
Total purchases figure [credit and cash]
Bank balance
Capital and drawings
Bad debts, Expenses due and prepaid
Discounts allowed or received

Workings

1. Sales

Credit sales	32,000 + 16,600 – 14,000	=	34,600
Cash sales	94,000 + 22,500 + 51,000 + 3,120 + 550	=	171,170
Total Sales			205,770

2. Purchases

Credit purchases	34,200 + 14,300 – 17,200	=	31,300
Cash purchases		=	51,000
			82,300
Less Drawings of stock			(4,160)
Total purchases			78,140

3.	**General expenses**	22,500 – 1,200	=	21,300
4.	**Light and heat**	4,600 + 640 – 500 – 1,185	=	3,555
5.	**Interest**	2,400 + 1,200	=	3,600
6.	**Insurance**	430 + 3,000 – 750	=	2,680
7.	**Rent**	22,800 – 11.400 – 6,650	=	4,750
8.	**Goodwill**	205,000 – 184,330	=	20,670
9.	**Drawings**	4,160 + 3,120 + 11,400 + 1,185	=	19,865

10. Bank

Lodgements		
Debtors	32,000	
Lodgement	94,000	
Loan	72,000	
Dividends	3,600	201,600
Less Payments		
Equipment	30,000	
Creditors	34,200	
Light and heat	4,600	
Interest	2,400	
Insurance premium	3,000	
S/O Charitable organisation	2,500	
Vehicle	32,000	
Warehouse	60,000	
Rent	22,800	191,500
		10,100

Question 8

80

(a) Stock Valuation

Purchases in units	**Unit Cost**	**Purchases at cost**
		€
4,000	€5	20,000
2,500	€6	15,000
1,700	€8	13,600
8,200		**48,600**

Credit Sales				**Cash Sales**				**Total Sales**	
Units			**€**	**Units**			**€**	**Units**	**€**
1,000	@	€9	9,000	1,500	@	12	18,000	2,500	27,000
1,200	@	€11	13,200	1,300	@	13	16,900	2,500	30,100
1,400	@	€11	15,400	1,200	@	14	16,800	2,600	32,200
3,600			**37,600**	4,000			**51,700**	7,600	**89,300**

Closing Stock in Units = Opening Stock 4,500 + Purchases 8,200 – Sales 7,600 = 5,100 units **[6]**

Closing Stock Valuation:	**Units**				**€**	
	1,700	@	€8	=	13,600	[2]
	2,500	@	€6	=	15,000	[2]
	900	@	€5	=	4,500	[2]
	5,100				**33,100**	[4]

Trading account for the year ending 31/12/2012			**€**	
Sales			89,300	[3]
Less Cost of sales				
Opening Stock	22,500	[2]		
Add Purchases	48,600	[3]		
	71,100			
Less Closing Stock	33,100	[2]	(38,000)	
Gross Profit			51,300	[4]

(b) (i)

	Manufacturing	**Assembly**	**Finishing**
Budgeted Overheads	€180,000	**€99,000**	€36,000
Direct Labour Hours	36,000	18,000	4,500
	€5 per DLH [2]	**€5.50 per DLH** [2]	**€8.00 per DLH** [2]

(ii)

Selling Price of Job Number 666

		€	€	
Direct materials	(30 x 10.20)		306.00	[5]
Direct Labour				
Manufacturing	(20 x 4.00)	80.00 [2]		
Assembly	(6 x 2.50)	15.00 [2]		
Finishing	(4 x 3.75)	15.00 [2]	110.00	
Budgeted Overheads				
Manufacturing	(20 x 5.00)	100.00 [3]		
Assembly	(6 x 5.50)	33.00 [3]		
Finishing	(4 x 8.00)	32.00 [3]	165.00	
General Administration overhead (30 x 20)			600.00	[3]
Total Cost [75%]			1,181.00	[3]
Profit	[25% of selling price]		393.67	
Net Selling Price 100%			1,574.67	[4]

(c)

(i) Under and over absorption of costs

	Dept A	Dept B	Dept C
	€160,000 / 32,000	€33,600 / 48,000	46,200 / 22,000
	= **€ 5 per M.H** [2]	= **€0.70 per L.H** [2]	= **€2.10 per LH** [2]

(ii)

	Dept A €		Dept B €		Dept C €		Total €
Actual overhead incurred	175,000	[1]	29,000	[1]	50,000	[1]	254,000
Absorbed overhead	185,000	[1]	28,000	[1]	56,700	[1]	269,700
Over/Under absorption	10,000		(1,000)		6,700		15,700

Actual Absorbed Overheads

Dept A Actual machine hours x Machine Hour rate	= 37,000 x €5.00	=	€185,000
Dept B Actual labour hours x Labour Hour rate	= 40,000 x €0.70	=	€28,000
Dept C Actual labour hours x Labour Hour rate	= 27,000 x €2.10	=	€56,700

[2]

In department A, the costs incurred were €10,000 less than expected/budgeted and therefore profits are €10,000 greater than expected.

In department B, the costs incurred were €1,000 more than expected/budgeted and therefore profits are €1,000 less than expected.

In department C, the costs incurred were €6,700 less than expected/budgeted and therefore profits are €6,700 greater than expected.

Overall, the costs incurred were €15,700 less than expected/budgeted and therefore profits are €15,700 greater than expected.

Question 9

80

(a)

Production Budget

	Jan		Feb		Mar		Apr		May
Sales	7,000	[1]	8,000	[1]	10,000	[1]	9,000	[1]	10,500
+ Closing Stock	5,600	[1]	7,000	[1]	6,300	[1]	7,350	[1]	7,700
	12,600		15,000		16,300		16,350		18,200
- Opening Stock			(5,600)	[1]	(7,000)	[1]	(6,300)	[1]	(7,350)
Required for production	12,600		9,400		9,300		10,050		10,850

(b)

Raw Materials Purchases Budget

	Jan		Feb		Mar		April		May
Units of Production	12,600	[½]	9,400	[½]	9,300	[½]	10,050	[½]	10,850
Materials per unit	x 5	[½]	x 5		x 5		x 5		x 5
Required for production	63,000	[½]	47,000	[½]	46,500	[½]	50,250	[½]	54,250
Add closing stock	9,400	[½]	9,300	[½]	10,050	[½]	10,850	[1]	
	72,400		56,300		56,550		61,100		
Less Opening stock	-		(9,400)	[½]	(9,300)	[½]	(10,050)	[½]	
Required for purchases	72,400	[½]	46,900	[½]	47,250	[½]	51,050	[½]	
Price per Kg	€2.00	[½]	€2.00		€2.00		€2.00		
Cost of raw materials	€144,800	[½]	€93,800	[½]	€94,500	[½]	€102,100	[½]	€435,200

(c)

Cash Budget – January to April

	Jan		Feb		Mar		April		Total
Receipts	€		€		€		€		
Cash sales received	84,000	[1]	96,000	[1]	120,000	[1]	108,000	[1]	
Credit Sales one month			63,000	[1]	72,000	[1]	90,000	[1]	
Credit Sales two months					63,000	[1]	72,000	[1]	
	84,000		**159,000**		**255,000**		**270,000**		
Payments									
Purchases			144,800	[1]	93,800	[1]	94,500	[1]	
Wages	25,000	[1]	25,000	[1]	25,000	[1]	25,000	[1]	100,000
Variable Overhead	63,000	[1]	47,000	[1]	46,500	[1]	50,250	[1]	206,750
Fixed overhead	29,250	[1]	29,250	[1]	29,250	[1]	29,250	[1]	117,000
Equipment	45,000	[1]	-		-		-		
Interest	250	[1]	250	[1]	250	[1]	250	[1]	1,000
	162,500		**246,300**		**194,800**		**199,250**		
Net Monthly Cash Flow	**(78,500)**	[1]	**(87,300)**	[1]	**60,200**	[1]	**70,750**	[1]	
Bank Loan	30,000	[1]	-		-		-		
Opening Balance			(48,500)	[1]	(135,800)	[1]	(75,600)	[1]	
Closing Balance	**(48,500)**		**(135,800)**		**(75,600)**		**(4,850)**		

(d)

Budgeted Profit and Loss Account for the 4 months ending 30/4/2012

	€	€	€
Sales			1,020,000 [1]
Less Cost of Sales			
Opening stock		-	
Add Purchases		435,200 [1]	
		435,200	
Closing stock – Finished goods	183,750 [1]		
Raw Materials	21,700 [1]	(205,450)	(229,750)
Gross Profit			**790,250**
Less Expenses			
Wages		100,000 [3]	
Variable overhead [41,350 x 5]		206,750 [1]	
Fixed overhead		117,000 [1]	
Depreciation – Equipment		3,000 [1]	(426,750)
Operating Profit			**363,500**
Less interest			(1,000) [1]
Net Profit			**362,500** [4]

(e) [4]

(i)

Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or overdraft.
It will see which months will have a surplus of cash and will be able to arrange short term investments.
There was a surplus of cash in March and April.
The trend of cash shortages is getting smaller- [normal for new business].
Overdraft facilities will be required each month up to a maximum of €135,800 in any month
Closing cash shortage is €4,850.

(ii)

The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset.
Decisions regarding capital items are the responsibility of the Board of Directors.
Carrying out of the capital budget is the responsibility of the Financial Controller.

Blank Page