LEAVING CERTIFICATE ACCOUNTING

MARKING SCHEME FOR THE 2005 EXAMINATION

INTRODUCTION

The solutions and marking schemes for Accounting, Higher and Ordinary levels, are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in a circle like this ❻ alongside. These marks are then totalled for each section/page and shown in a square like this 40.

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (eg A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where their calculation in Section (a) is incorrect, but this inaccurate information is used in the answer to Section (b), examiners give credit for analysis/decisions correctly made by the candidate on the basis of the incorrect data in this section. In this way, candidates are not penalised twice for the same error.

Leaving Certificate Accounting – Higher Level 2005

Question 1 – solution 35

Manufacturing Account of James Ltd for the year ended 31/12/2004

		€	**€**
Opening stock of raw materials			48,000 ❶
Purchases of raw materials	**W 1**		432,280 ❸
Carriage in			5,510 ❷
			485,790
Less closing stock of raw materials			51,000 ❶
Cost of raw materials consumed			434,790
Direct Costs:			
Factory wages	**W 2**	158,220 ❹	
Hire of special equipment		12 000 ❷	170,220
Prime Costs		**605,010**	
Factory Overheads:			
General factory overheads		50,300 ❷	
Depreciation on plant and machinery	**W 3**	49,800 ❸	
Depreciation on buildings		10,160 ❸	
Loss on sale of machine	**W 4**	1,500 ❹	
			111,760
Factory cost			716,770
Work in progress 1/1/2004			24,150 ❷
			740,920
Less Work in progress 31/12/2004			(28,550) ❷
			712,370
Less sale of scrap materials	**W 5**		(3,700) ❹
Cost of manufacture			708,670 ❶
Gross profit on manufacturer			91,330
Goods transferred from factory at CMV			800,000 ❶

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Trading and Profit and Loss Account for year ended 31/12/2004

			€	
Sales	**W 6**		925,400	❺
Opening stock of finished goods		85,500 ❷		
Goods transferred @ CMV		800,000 ❷		
		885,500		
Less closing stock of finished goods	**W 7**	97,500 ❻		
Cost of goods sold		788,000	(788,000)	
Gross profit on trading			137,400	
Gross profit on manufacture			91,330	
			228,730	
Less Expenses:				
Administration Expenses				
Administration expenses	**W 8**	22,900 ❻		
Selling and Distribution Expenses:				
Selling expenses		68,420 ❷	(91,320)	
			137,410	
Discount (net)	**W 9**		3,000	❸
Operating Profit			140,410	
Less Debenture Interest	**W 10**		(8,325)	❹
Net profit before taxation			132,085	
Less Taxation			(10,000)	❷
Profit after tax			122,085	
Less Preference dividend paid		8,000 ❶		
Preference dividend due		8,000 ❶		
Ordinary dividend paid		9,000 ❶		
Ordinary dividend due		18,000 ❶		
			(43,000)	
Retained Profit			79,085	
Profit and Loss Balance 1/1/2004			82,300	❷
Profit and Loss Balance 31/12/2004			161,385	❷

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Balance Sheet of James Ltd as at 31/12/2004

Intangible Assets					**€**
Patents					70,000 ❷
			Accumulated		
Tangible Assets;		**Cost**	**Depreciation**	**Net**	
		€	**€**	**€**	
Factory Buildings	**W 11**	508,000 ❷	55,160 ❷	452,840	
Plant and Machinery	**W 3,12**	238,000 ❷	135,100 ❸	102,900	
		746,000	190,260	555,740	555,740
					625,740
Current Assets;					
Stocks Raw materials			51,000 ❷		
Work in progress			28,550 ❷		
Finished goods			97,500 ❷	177,050	
Debtors	**W 13**			84,800 ❺	
				261,850	
Creditors: amounts falling due within 1 year:					
Trade creditors			57,700 ❷		
Bank			11,450 ❷		
VAT			12,730 ❷		
Dividends due			26,000 ❹		
Taxation			10,000 ❷		
Debenture interest due			8,325 ❸		126,205
Net Current Assets					135,645
					761,385
Financed By:					
Creditors: amounts falling due after more than1 year					
9% Debentures					100,000 ❷
Capital and Reserves:			Authorised	Issued	
Ordinary Shares at 1 each			550,000 ❶	300,000 ❷	
8% Preference shares at 1 each			250,000 ❶	200,000 ❷	
			800,000	500,000	
Profit and Loss Balance 31/12/2004				161,385	
					661,385
					761,385

Workings - Question 1

1	Purchases of Raw materials	450,280 – 18,000	=	432,280
2	Factory Wages	198,220 - 40,000	=	158,220
3	Depreciation on plant & machinery	26,000 + 23,800	=	49,800
		47,600 + 2,200	=	49,800
	Accumulated Depreciation on plant	104,000 – 18,700 + 49,800	=	135,100
4	Loss on Disposal of machine	22,000 – 18,700 – 1,800	=	(1,500)
5	Sale of scrap materials	5,500 – 1,800	=	3,700
6	Sales	935,000 – 9,600	=	925,400
7	Closing stock of finished goods	92,000 – 2,500 + 8,000	=	97,500
8	Administration expenses	23,900 – 1,000	=	22,900
9	Discount	4,000 – 1,000	=	3,000
10	Debenture Interest	6,300 + 2,025	=	8,325
	Debenture Interest	1,575 + 6,750	=	8,325
11	Cost of Factory Buildings	450,000 + 18,000 + 40,000	=	508,000
12	Cost of plant and Machinery	260,000 – 22,000	=	238,000
13	Debtors	94,400 – 9,600	=	84,800

Question 2 - solution

(a) 24

Adjusted Creditors Control Account

		€				€	
Balance b/d		772	❷	Balance b/d		62,125	❶
Credit note	(ii)	277	❺	Interest	(iii)	45	❺
Balance c/d		62,281		Restocking charge	(v)	48	❺
				Discount Disallowed	(vi)	340	❺
				Balance c/d		772	❶
		63,330				63,330	
Balance b/d		772		Balance b/d		62,281	

(b) 30

Schedule of Creditors Account Balances

				€	
Balance as per List of Creditors				60,067	❶
Add Invoice	(i)	960	❺		
Interest	(iii)	70	❻		
Cash Purchases	(iv)	760	❸		
Discount disallowed	(vi)	340	❺		
				2,130	
				62,197	
Less: Credit note	(ii)	304	❸		
Credit note	(v)	384	❻	(688)	
Net balance as per adjusted creditors control account				61,509	❶

(c) 6

To check accuracy of figures related to creditors by comparing balance in control account with Balance in the list of creditors

To locate errors quickly and to narrow searching for errors to confined areas

Question 3 - solution.

(a) 6

Vehicles Account

01/01/2003	Balance b/d	258,000	❶	01/05/2003	Disposal	80,000	❶
01/05/2003	Purchases	90,000	❶	31/12/2003	Balance b/d	268,000	
		348,000				348,000	
01/01/2004	Balance b/d	268,000		01/07/2004	Disposal	90,000	❶
01/07/2004	Purchases	95,000	❶	31/12/2004	Balance c/d	273,000	❶
		363,000				363,000	
01/01/2005	Balance b/d	273,000					

(b) 16

Disposal of Vehicle Account

01/05/2003	Cost	80,000	❷	01/05/2003	Provision for Dep	33,000	❷
					Compensation	30,000	❷
					Trade In	15,000	❷
					Loss	2,000	❶
		80,000				80,000	
01/07/2004	Cost	90,000	❷	01/07/2004	Prov.for Dep.	74,250	❷
	Profit	8,250	❶		Trade in	24,000	❷
		98,250				98,250	

(c) 32

Provision for Depreciation Account

01/05/2003	Disposal	**W4**	33,000	❷	01/01/2003	Balance b/d	**W1**	106,100	❻
31/12/2003	Balance c/d		112,800		31/12/2003	P&L	**W2**	39,700	❽
			145,800		❶			145,800	
01/07/2004	Disposal	**W5**	74,250	❷	01/01/2004	Balance b/d		112,800	
31/12/2004	Balance b/d		79,125	❹	31/12/2004	P&L	**W3**	40,575	❽
			153,375		❶			153,375	
					01/01/2005	Balance b/d		79,125	

(d) 6

Cost of asset
Estimated life of asset
Scrap value of asset

Method of depreciation

Workings

Vehicle No	Cost	Annual dep	Dep to 1/1/2003	Dep for 2003	Dep for 2004	Total dep	
1 Unit	70,000 20,000	10,500	42,000 12,000	10,500 3,000	5,250 1,500	**74,250**	**W 5**
2	80,000	12,000	29,000	4,000	-	**33,000**	**W 4**
3	88,000	13,200	23,100	13,200	13,200		
4	90,000	13,500	-	9,000	13,500		
5	95,000	14,250	-	-	7,125		
			106,100 **W 1**	**39,700** **W 2**	**40,575** **W 3**		

Provision Balance 1/1/2003

Vehicle 1.	42,000	
Unit.	12,000	
Vehicle 2.	29,000	
Vehicle 3.	23,100	
	106,100	**W 1**

Provision for Dep. 2003

Vehicle 1	10,500	
Unit	3,000	
Vehicle 2	4,000	
Vehicle 3	13,200	
Vehicle 4	9,000	
Vehicle 5	Nil	
	39,700	**W 2**

Provision for Dep. 2004

Vehicle 1	5,250	
Unit	1,500	
Vehicle 2	Nil	
Vehicle 3	13,200	
Vehicle 4	13,500	
Vehicle 5	7,125	
	40,575	**W 3**

Disposal vehicle 2

01/01/2003		
Depreciation	29,000	
2003		
Depreciation for	4,000	
	33,000	**W 4**

Disposal vehicle 1

01/01/2003		
Depreciation - Vehicle	42,000	
Depreciation -Unit	12,000	
2003		
Depreciation -Vehicle	10,500	
Depreciation -Unit	3,000	
2004		
Depreciation -Vehicle	5,250	
Depreciation -Unit	1,500	
	74,250	**W 5**

Question 4 - solution

(a) 35

Income and Expenditure Account of M.Casey for year ended 31/12/2004

			€	€
Income;				
Private patients		**W 1**		95,300 ❸
Investment Income		**W 2**		4,000 ❸
Medical Insurance Scheme		**W 3**		22,640 ❸
				121,940
Less Expenditure				
Loss on sale of equipment		**W 4**	1,800 ❸	
Cost of materials		**W 5**	14,800 ❺	
Telephone and postage			2,170 ❷	
Wages of receptionist			15,000 ❷	
Technicians fees			13,000 ❷	
Interest on loan		**W 6**	400 ❷	
Light and heat			2,800 ❷	
Insurance			2,360 ❷	
Depreciation;	Surgery		2,400 ❷	
	Equipment		12,800 ❷	
	Motor car		4,800 ❷	(72,330)
Net profit				49,610

(b) 25

Balance Sheet of M. Casey as at 31/12/2004

Fixed Assets		**Cost**	**Aggregate Depreciation**	**Net**
Surgery		120,000 ❶	7,200 ❷	112,800
Equipment	**W 7**	64,000 ❷	29,600 ❷	34,400
Motor car		24,000 ❶	14,400 ❷	9,600
		208,000	51,200	156,800
Investments				80,000 ❶
				236,800
Current Assets:				
Bank			3,340 ❶	
Investment income			400 ❷	
Stock			4,900 ❶	
Medical Ins. Scheme			4,800 ❷	
Private patients			1,400 ❷	
			14,840	
Creditors: amounts falling due within 1 year				
Creditors for dental materials			3,500 ❶	11,340
				248,140
Financed by:				
Capital				219,160 ❶
Surplus Income				49,610

		268,770
Less Drawings	**W 8**	20,630 ❹
		248,140

Workings - question 4

1	Private Patients	96,000 – 2,100 +1,400	=	95,300
2	Investment Income	(3,600 + 400)	=	4,000
3	Medical Insurance Scheme	23,540 – 5,700 + 4,800	=	22,640
4	Loss on disposal	18,000 – 7,200 – 9,000	=	1,800
5	Dental material	5,400 + (14,000 – 3,200 + 3,500) – 4,900	=	14,800
6	Interest	(3,600 – 3,200)	=	400
7	Equipment	60,000 + 22,000 – 18,000	=	64,000
8	Drawings	18,500 + 930 + 1,200	=	20,630

Question 5 – solution

(a) 45

(i) Return on Capital Employed

$$\frac{\text{Net Profit + Debenture Interest x 100}}{\text{Capital Employed}} = \frac{72{,}000 + 18{,}000 \text{ x}100}{842{,}000} = 10.68\%$$ ❾

(ii) Opening stock

$$\frac{\text{Cost of sales}}{\text{Average stock}} = 8 = \frac{740{,}000}{8 \text{ x Av stock}}$$

Average stock = 92,500

Opening stock = (92,500 x 2) less €110,000 = €75,000 ❾

(iii) Earnings per share

$$\frac{\text{Net profit after Pref Div}}{\text{Number of ordinary shares}} = \frac{72{,}000 - 16{,}000}{400{,}000} = 14c$$ ❾

(iv) Period to recoup share

$$\frac{\text{Market price}}{\text{Earnings per share}} = \frac{2.08}{14c} = 14.86 \text{ years}$$ ❾

(v) Dividend cover

$$\frac{\text{Net profit after Pref Div}}{\text{Ordinary dividend}} = \frac{72{,}000 - 16{,}000}{36{,}000} = 1.55 \text{ times}$$ ❾

(b) 40

Performance

Profitability: ❽
Equip Ltd is a profitable business as its return on capital employed of 10.68% in 2004 and 9.5% in 2003. Its return on equity funds is 12.12% in 2004 and 12% in 2003.
This indicates that the firm is earning nearly 3 times the return from risk free investments of about 3%.
The profitability has improved by 1.18% since 2003.

Dividend policy: ❽

Dividend per share in 2004 is 9c and 7.5c in 2003. This has improved by1.5c since 2003.
The company's dividend cover is 1.55 times in 2004 but was 1.73 times in 2003. More profits are retained in 2004.
The dividend yield is 4.3% in 2004 and 3.75% in 2003. This has improved by 0.55% since last year. This yield is above the return on a risk free investment of 3%. The shareholders would be happy with the increase in dividend but would prefer a higher dividend yield. The real return to ordinary shareholders would be 6.7% based on available profits.

State of Affairs

Liquidity: ❽

Equip Ltd does not have liquidity problem and is well able to pay their debts as they fall due. The company has €1.34 in liquid assets to pay each €1 in debts. This has improved from 2003 when the company had €1.20 to pay each €1 owed.
The current ratio has also improved since 2003 when the company had €1.80 in assets to cover each €1 of debt. They now have €1.95 to cover each €1 owed. This is slightly below the ideal of 2:1 but is not a cause of worry to shareholders.

Gearing: ❹

The gearing of the company is 45%. This is a low geared company. This would please the shareholders as it increases their chance of getting a dividend and there is little risk from outside.
The interest cover is 5 times and shows the ability of the company to meet their interest charges is good. This would please the shareholders.

Investment Policy: ❹

The investments made by the company cost €100,000. These investments now have a market value of €90,000, a drop in value of 10%. This indicates poor management of resources and would not please the shareholders.

Prospects

Value of shares: ❹

Last year a share in Equip Ltd cost €2. The share price has now increased to €2.08. The price has increased by 4%. This would please the shareholders as it shows confidence in the company by the market.

Sector: ❹

Equip Ltd is a manufacturer of sports equipment. This is a good sector to be in as people are always interested in sport and with the heightened awareness of the need to exercise and avoid obesity it should also be a growing sector. There is also an increase in disposable income.

(c) **5 x 3 marks** 15

The gross profit percentage has dropped from 32% in 2003 to 22% in 2004. This could be caused by:

- Cash losses
- Stock losses
- Mark downs during sales
- Incorrect valuation of stock
- Increased cost of sales without an increase in sales price
- Change in sales mix

Question 6 - solution

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Profit and Loss Account of Gayle Plc for year ended 31/12/2004

		€
Turnover		1,880,000 ❷
Cost of Sales		(1,137,000) ❹
Gross Profit		743,000
Distribution Costs		(294,800) ❸
		448,200
Administrative Expenses		(254,700) ❺
		193,500
Other Operating Income		85,000 ❸
Operating Profit ❶		278,500
Investment income		21,600 ❷
Profit on sale of land		65,000 ❷
		365,100
Interest payable		(16,000) ❸
Profit on ordinary activities before tax		349,100
Taxation		(87,000) ❷
		262,100
Dividend paid	(24,000) ❸	
Dividend proposed	(22,000) ❸	(46,000)
		216,100
Profit brought forward at 1/1/2004		52,000 ❷
Profit carried forward at 31/12/2004		268,100 ❶

Workings

Cost of Sales	73,000 + 1,150,000 + 10,000 – 96,000	=	1,137,000
Distribution Costs	248,000 + 2,800 + 44,000	=	294,800
Administrative Expenses	172,000 + 9,500 + 50,000 + 11,200 + 12,000	=	254,700
Other Operating Income	60,000 + 13,000 + 12,000	=	85,000
Debtors	289,000 – 27,000 +11,600	=	273,600

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Balance Sheet of Gayle Plc as at 31/12/2004

Fixed Assets			**€**
Intangible assets			30,000 ❷
Tangible Assets			1,043,000 ❷
Financial Assets			240,000 ❶
			1,313,000
Current Assets			
Stock	96,000❶		
Debtors	273,600❸		
Bank	48,000❶	417,600	
Creditors: amounts falling due within 1 year: ❶			
Trade Creditors	163,00❶		
Dividends due	22,000❷		
Taxation	158,000❷		
Other Creditors	63,500❹		
		(406,500)	
Net Current Assets			11,100
Total assets less Current Liabilities			1,324,100
Creditors: amounts falling due after more than 1 year			
8% Debentures			200,000 ❶
Capital and Reserves			
Issued shares		600,000 ❷	
Revaluation Reserve		256,000❸	
Profit carried forward		268,100❶	
			1,124,000
			1,324,100

Notes to the Accounts

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Accounting policy notes

1. **Tangible Fixed Assets** ❻
   Buildings were revalued at the end of 2004 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 of the tangible assets over their estimated useful economic life, as follows:

Buildings	2% per annum – straight line basis.
Delivery vans	20% of cost.
Stocks	Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. **Operating Profit** ❸
   Operating profit is arrived at after charging;

Depreciation on Tangible Assets	58,000
Patent amortised	10,000

Directors remuneration	50,000
Auditors fees	9,500

3. Interest payable ❷

Interest payable on debentures (Repayable by 2008/2009)		16,000

4. Dividends ❹

Ordinary dividends		
Interim/ Paid 3.75c per share	15,000	
Final proposed 3.25c per share	13,000	28,000
Preference dividends		
Interim/ Paid 4.5c per share	9,000	
Final proposed 4.5c per share	9,000	18,000

5. Tangible Fixed Assets ❻

	Land&Buildings	Vehicles	Total
1/1/2004	780,000	220,000	1,000,000
Disposal	(80,000)		(80,000)
Revaluation surplus 31/12/2004	200,000		200,000
Value at 31/12/2004	900,000	220,000	1,120,000
Depreciation 1/1/2004	42,000	33,000	75,000
Depreciation charge for year	14,000	44,000	58,000
	56,000	77,000	133,000
Transfer on Revaluation	(56,000)		(56,000)
Depreciation 31/12/2004	Nil	77,000	77,000
Net Book Value 1/1/2004	738,000	187,000	925,000
Net Book Value 31/12/2004	900,000	143,000	1,043,000

(b) Directors Report 3 x 3 marks 9

A Directors Report must contain the following:

- The dividends recommended for payment.
- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company's business during the year
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company's subsidiaries and affiliates.
- Evaluation of company's compliance with it's safety statement
- Details of directors' share holdings and dealings during the year

(c) Exceptional Item 7

This is a material item of significant size. It is a profit or loss that must be shown separately in the Profit and Loss Account because of size.❹

Example - Profit or loss on sale of fixed asset or large bad debt. ❸

Question 7 - solution

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(a)

Trading and Profit and Loss Account for year ended 31/12/2004

Sales	**(W1)**		212,610 ❾
Less Cost of Sales			
Opening stock		15,200 ❷	
Purchases	**(W2)**	77,700 ❼	
		92,900	
Closing stock		(17,000) ❷	75,900
Gross Profit			136,710
Less Expenses:			
General expenses	**(W3)**	22,000 ❺	
Donation to charity		3,200 ❷	
Light and heat	**(W4)**	4,976 ❼	
Interest	**(W5)**	4,200 ❹	
Insurance	**(W6)**	5,360 ❻	
Rent	**(W7)**	400 ❺	
			40,136
Net Profit			96,574 ❸

Workings:

1. Sales

Credit sales				34,000	+	18,100	–	17,000	=	35,100
Cash sales	96,000+	23,700	+	53,000	+	4,160	+	650	=	177,510
Total Sales										**212,610**

2. Purchases

Credit purchases	33,100	+	15,500	–	18,700	=	29,900
Cash purchases							53,000
Total purchases							82,900
Less drawings of stock							(5,200)
Total purchases							**77,700**

3. General expenses					23,700	–	1,700	=	22,000
4. Light and heat	5,800	+	720	–	300		1,244	=	4,976
5. Loan Interest					2,325	+	1,875	=	4,200
6. Insurance			6,000	+	860	–	1,500	=	5,360
7. Rent			2,400	–	1,200	–	800	=	400
8. Drawings	5,200	+	4,160	+	800	+	1244	=	11,404

(b) 40

Balance sheet as at 31/12/2004

Intangible Fixed Assets		**€**	**€**
Goodwill			20,340 ❸
Tangible Fixed Assets			
Buildings		232,000❷	
Vehicles		26,000❶	
Equipment		22,000❶	280,000
			300,340
Current Assets			
Stock		17,300❶	
Debtors		18,100❶	
Bank		46,975❺	
Cash		650❶	
Insurance prepaid		1,500❸	
Rent prepaid		1,200❸	
		85,725	
Creditors falling due within 1 year:			
Creditors	15,500 ❶		
Electricity due	720 ❶		
Interest due	1,875 ❸		
Loan repayment due	7,000 ❷	25,095	
			60,630
			360,970
Financed by:			
Creditors falling due after more than 1 year:			
Loan			77,000 ❷
Capital		195,000❷	
Capital introduced		3,800❸	
Net profit		96,574	
		295,374	
Less drawings **W 8**		11,404❺	
			283,970
			360,970

(c) 8

Total sales figure
Total purchases figure
Trial balance
Bank balance
Capital
Goodwill
Bad debts

Expenses due and prepaid
Discounts

Question 8 - solution

29

(a) **Overhead analysis**

Overhead		**Basis**	**Total**	**Processing**	**Assembly**	**Finishing**
Ind. Material		Actual	250,000	120,000 ❶	70,000 ❶	60,000 ❶
Ind. labour		Actual	400,000	260,000 ❶	80,000 ❶	60,000 ❶
Light & heat	❶	Volume	90,000	45,000 ❶	30,000 ❶	15,000 ❶
Rent & Rates	❶	Floor space	54,000	36,000 ❶	13,500 ❶	4,500 ❶
Mach. Maint.	❶	Machine hours	24,000	12,000 ❶	9,600 ❶	2,400 ❶
Depreciation	❶	Plant valuation	60,000	36,000 ❶	14,400 ❶	9,600 ❶
Canteen	❶	Employees	45,000	22,500 ❶	16,875 ❶	5,625 ❶
			923,000	**531,500** ❶	**234,375** ❶	**157,125** ❶

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(b)

Overhead recovery (absorption) per	**Machine hours**	**Direct Labour hours**	
	Processing (Machine hours)	**Assembly** (Labour hours)	**Finishing** (Labour hours)
Budgeted Overheads	531,500	234,375	157,125
Budgeted Hours	25,000	45,000	15,000
Overhead absorption rate per machine hour	**€ 21.26**		
Overhead absorption rate per labour hour	**€8.86** ❼	**€ 5.21** ❼	**€10.48** ❼

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(c)

Selling price of Job No.316

		€
Materials	8000 + 1,800	9,800.00 ❷
Labour	1,000 + 3,200 + 600	4,800.00 ❸
Overheads:		
Processing	40 x €21.26	850.40 ❹
Assembly	60 x €5.2	312.60 ❹
Finishing	10 x €10.48	104.80 ❹
Production cost	75%	15,867.80
Profit	25%	5,289.27 ❶
Selling Price	100%	€21,157.07 ❹

8

(d)

Absorption rates ❻ Per Labour Hour
Per Machine Hour
Per Unit
Per Percentage of Prime Cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge. ❷

Question 9- solution

(a)

Sales Budget	**Silver**	**Gold**
Expected sales in units	8,000	3,700
Expected selling price per unit	€140	€170
Budgeted sales revenue	€ 1,120,000	€629,000

14

Production Budget - Spencer Ltd.

	Silver Units	**Gold Units**
Required by sales	8,000 ❸	3,700 ❸
Closing stock (80% of opening stock)	400 ❷	320 ❷
	8,400	4,020
Opening stock	(500) ❷	(400) ❷
Budgeted production in units	**7,900**	**3,620**

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(b) **Raw Materials Purchases Budget**

			Material 1 kgs	**Material 2 kgs**	
Required by production	**- Silver**	(7,900 x 6)	47,400	39,500	(7,900 x 5)
	- Gold	(3,620 x 4)	14,480	25,340	(3,620 x7)
			61,880 ❹	64,840 ❹	
Add closing stock (80% of opening stock)			3,200 ❷	2,400 ❷	
			65,080	67,240	
Less opening stock			(4,000) ❷	(3,000) ❷	
Required Purchases of raw materials in kg's			61,080	64,240	
Purchase price			€2 ❶	€4 ❶	
Purchase cost			**£122,160**	**£256,960**	**€379,120**

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(c) **Production Cost / Manufacturing Budget**

Cost of Raw Materials consumed:			
Opening stock of raw materials	Silver (4,000 x 1.80)	7,200	
	Gold (3,000 x 3.50)	10,500	17,700 ❹
Purchases	(122,160 + 256,960)		379,120 ❷
	396,820		
Less closing stock of raw materials	Silver (3,200 x 2.00)	6,400	
	Gold (2,400 x 4.00)	9,600	16,000 ❹
			380,820
Cost of labour	(568,800 + 304,080)		872,880 ❹
Variable Overheads	(142,200 + 76,020)		218,220 ❻
Fixed Overheads			145,480 ❷
Cost of Manufacture			€1,617,400 ❹

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(d)

Budgeted Trading Account

				€
Sales of finished goods	(1,120,000 + 629,000)			1,749,000❸
Opening stock of finished goods	Silver (500 X €120)	60,000		
	Gold (400 X €140)	56,000	116,000❹	
Cost of manufacture			1,617,400❸	
			1,733,400	
Less closing stock	Silver (400 X €134)	53,600		
	Gold (320 X €155)	49,600	(103,200)❹	
Cost of goods sold				1,630,200
Gross Profit				€118,800❷

6

(e) Market research
Trends
Last year sales
Opinion of Sales manager and sales representatives
Price to be charged
State of Economy
Competition
Luxury versus necessities

Workings

1 Labour Budget

Silver	7,900 x 6hrs	= 47,400 hrs x €12	=	€568,800
Gold	3,620 x 7hrs	= 25,340 hrs x €12	=	€304,080

2 Variable Overheads

Silver	47,400hrs X €3	=	€142,200
Gold	25,340hrs X €3	=	€76,020

3 Closing stock

Silver		€
Material 1	6kgs x €2	12
Material 2	5kgs x €4	20
Labour	6hrs x €12	72
Variable	6hrs x €3	18
Fixed	6hrs x €2	12
		€134

Gold		€
Material 1	4 kgs x €2	8
Material 2	7 kgs x €4	28
Labour	7 hrs x €12	84
Variable	7 hrs x €3	21
Fixed	7 hrs x €2	14
		€155

400 x €134	=	€53,600
320 x €155	=	€49,600
		103,200

4 Fixed Overheads per direct labour hour

$$\frac{145{,}480}{[(7900 \times 6) + (3620 \times 7)]} = \frac{145{,}480}{72{,}740} = €2$$

Leaving Certificate Accounting - Ordinary Level 2005

Question 1 - solution

40

Manufacturing account of Brophy Ltd for the year ended 31/12/2004

					€	
Stock - Raw materials 1/1/2004					46,000	❷
Add Purchase -Raw materials					590,000	❷
					636,000	
Less Stock - Raw materials 31/12/2004					44,000	❷
Cost of raw materials consumed					592,000	
Add Factory wages	80%	**(W1)**			96,000	❹
Add Direct expenses					20,000	❷
Prime Cost					708,000	
Add Factory Overhead Expenses						
Factory supervisor wages			24,000	❸		
Factory light & heat			16,800	❸		
Factory insurance		**(W2)**	8,600	❹		
Depreciation -Plant & Machinery 10% of cost			19,000	❸		
Depreciation -Factory Building 4% of cost			20,000	❸		
					88,400	
Factory cost					796,400	
Add Work in progress 1/1/2004					18,000	❸
					814,400	
Less Work in progress 31/12/20/04					15,000	❸
					799,400	
Less sales of scrap materials					12,800	❸
Cost of manufacture					786,600	❶
Profit on manufacture					13,400	❶
Transfer at Current Market Value					800,000	❶

Question 1-solution

(b)

40

Trading, Profit and Loss Account of Brophy Ltd for the year ended 31/12/2004.

				€	
Sales				860,000	❸
Less sales returns				4,000	❸
				856,000	
Less Cost of sales					
Opening stock of finished goods			32,000❷		
Add cost of manufacture			800,000❷		
			832,000		
Less closing stock of finished goods			49,000❷		
Cost of sales				783,000	
Gross Profit				73,000	❶
Add manufacturing Profit				13,400	❶
				86,400	
Less Expenses					
Administration ❶					
Stationery		2,400❸			
Directors fees		52,000❸	54,400		
Selling & Distribution ❶					
Showroom expenses		3,900❹			
Depreciation - Delivery van 10% B.V		2,800❹			
			6,700		
Total Expenses				61,100	
Operating Profit				25,300	
Less debenture interest	**(W3)**			5,400	❹
Net Profit for this year				19,900	❷
Add Profit & Loss Balance 1/1/04				123,200	❷
Profit and Loss Balance at 31/12/2004				143,100	❷

Workings

(W1)	**Factory wages:**	€120,000 – 24,000	=	€96,000
(W2)	**Factory Insurance:**	€12,900 – 4,300	=	€8,600
(W3)	**Debenture Interest:**	12% of €60,000 x 9 months	=	€5,400

Question 1: - solution (continued)

(c) 40

Balance Sheet - Brophy as at 31/12/2004

Intangible Assets				**€**
Patents				62,000❷
		Accumulated		
Fixed Assets	**Cost**	**Depreciation**	**Net**	
	€	**€**	**€**	
Delivery Vans	42,000 ❷	16,800❷	25,200	
Plant & machinery	190,000 ❷	74,000❷	116,000	
Factory buildings	500,000 ❷	20,000❶	480,000	
	732,000	110,800	621,200	621,200
				683,200
Current Assets				
Closing Stocks				
Raw materials		44,000❷		
Work in progress		15,000❷		
Finished goods		49,000❷		
			108,000	
Debtors		52,400❸		
Less provision of bad debts		2,600❷	49,800	
Insurance prepaid			4,300❸	
			162,100	
Creditors: amounts falling due within 1 year				
Creditors		59,600❷		
VAT		20,400❷		
Bank		56,800❷		
Debenture interest due		5,400❷		
			142,200	
Working Capital				19,900
Total Assets				703,100
Financed by				
Creditors: amounts falling due after more than 1 year				
12% Debentures				60,000 ❷
Capital and Reserves		**Authorised**	**Issued**	
Ordinary shares @ €1 each		600,000❶	500,000❶	
Profit & Loss Balance 31/12/2004			143,100❶	643,000
				703,100

Question 2-solution

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Tabular Statement

Assets	**Nov 1**	**Nov 3**	**Nov 5**	**Nov 9**	**Nov 15**	**Nov 19**	**Nov 24**	**Nov 25**	**Nov 27**	**Totals**
Buildings	240,000 ❷									240,000
Equipment	80,000 ❷					+ 8,000 ❷				88,000
Stock	62,000 ❷		+5,400 ❷				(4,000) ❷			63,400
Debtors	24,400 ❷	(900) ❷					+5,800 ❷		(600) ❷	28,700
Bank	8,600 ❷	+850 ❷		(4,000) ❷	(2,000) ❷	(1,000) ❷		(200) ❷	300 ❷	2,550 ❶
Total	**415,000**	**(50)**	**+5,400**	**(4,000)**	**(2,000)**	**+7,000**	**+1,800**	**(200)**	**(300)**	**422,650**

Liabilities	**Nov 1**	**Nov 3**	**Nov 5**	**Nov 9**	**Nov 15**	**Nov 19**	**Nov 24**	**Nov 25**	**Nov 27**	**Totals**
Capital	383,000 ❷									383.000
Drawings								(200) ❷		(200)
Profit/Loss		(50) ❷			100 ❷		+1,800 ❷		(300) ❷	1,550
Creditors	28,000 ❷		+5,400 ❷		(2,100) ❷					31,300 ❶
Loan	4,000 ❷			(4,000) ❷		+7,000 ❷				7,000
Expenses due										

Total	**415,000**	**(50)**	**+5,400**	**(4,000)**	**(2,000)**	**+7,000**	**+1,800**	**(200)**	**(300)**	**422,650**

Question 3 - solution

(a) 35

Profit and Loss Account of Sea Ltd for the year ended 31/12/2004

		€
Net Profit for year		250,000 ❺
Less: Taxation		11,000 ❺
Profit after taxation		239,000
Less: Appropriations		
General Reserve	50,000 ❹	
Interim Ordinary Dividend 9c	63,000 ❹	
Interim Preference Dividend for half year	8,000 ❹	
Proposed Preference Dividends	8,000 ❹	
Proposed Ordinary Dividend 13c	91,000 ❹	220,000
Retained profit for year		19,000
Retained Profit 1/1/2004		225,000 ❹
Retained Profits carried forward		244,000 ❶

(b) 25

Balance Sheet extract as at 31/12/2004

	€	€	€
Fixed assets			
Current assets			
Less: Creditors: amount falling due within 1 year			
Preference Dividend due	8,000 ❹		
Ordinary Dividend due	91,000 ❹		
Taxation due	11,000 ❹	110,000	
Financed by:			
Capital and reserves	**Authorised**	**Issued**	
Share Capital			
Ordinary Shares of €1 each	900,000 ❶	700,000 ❷	
4% Preference Shares of €1 each	500,000 ❶	400,000 ❷	
General Reserve		390,000 ❹	
Profit and loss balance		244,000 ❸	
Shareholders Funds			1,734,000
			1,734,000

Question 4 - solution

(a) 30

Statement of Net Worth/ Capital as at 1/1/2004

		€	€
Assets			
Premises		490,000 ❸	
Furniture & Equipment	(€83,000 - €26,200)	56,800 ❻	
Motor Vehicles		34,600 ❸	
Stock		44,900 ❸	
Debtors		24,000 ❸	
Insurance prepaid		400 ❸	
			650,700
Less Liabilities			
Creditors		16,500 ❸	
Expenses due		1,800 ❸	
Bank overdraft		10,400 ❸	
			28,700
Capital/ Net Worth 1/1/2004			**622,000**

(b) 30

Statement of Profit or Loss for year ended 31/1220/2004

		€	
Assets		780,000	❷
Less Depreciation furniture & equipment 20%	16,600 ❸		
Depreciation on motor vehicles 20%	6,920 ❸	23,520	
Total Assets		756,480	
Less Creditors: amounts falling due within one year			
Liabilities	34,000 ❷		
Expenses due	600 ❸	34,600	
Net worth on 31/12/2004		**721,880**	
Less net worth on 1/1/2004		622,000	❸
Apparent profit for the year		99,880	
Less Capital Introduced		12,000	❹
		87,880	
Add Drawings			
Repairs	2,600 ❸		
Drawing – stock	9,600 ❸	12,200	
Net Profit for the year 2004 ❷		**100,080**	❷

Question 5: solution

(a) 40

(i) Opening Stock 610,000 + 63,000 – 590,000 € 83,000 10

(ii) Percentage Mark up on cost

$\frac{\text{Gross Profit x 100}}{\text{Cost of sales}} = \frac{240{,}000 \text{ x } 100}{610{,}000} = 39.34\%$ 10

(iii) Period of credit given to debtors

.

$\frac{\text{Debtors x 365}}{\text{Credit sales}} = \frac{70{,}000 \text{ x } 365}{850{,}000} = 30 \text{ days}$ 10

(iv) Acid Test Ratio

$\frac{\text{Current Assets - Closing stock.}}{\text{Current Liabilities}} = \frac{97{,}000}{94{,}000} = 1.03 : 1$ 10

(b) 40

(i) 8% Debentures (2008/2010) 10
Debentures are Long-term Loans. The fixed annual rate of interest is 8%.
Loan must be repaid in one lump sum during the years 2008/2010.

(ii) Tangible Assets: 10
These are items of value that you can see and touch e.g. Building, Office Equipment.

(iii) Preference Dividend: 10
This is the portion of profits paid to Preference shareholders. It is a fixed percentage and must be paid before the ordinary dividend. Preference shareholders are not the owners of the company, they are a source of finance only. If a dividend is not paid in any year it accumulates and is paid when profits are available.

(iv) Capital Employed 10
This is the total amount invested in the company. It consists of shareholders' funds and long-term liabilities

(c) The above firm would **not** have difficulty paying its debts because the Current Ratio and the Acid Test Ratio of 1.70 to 1 and 1.03 to 1 respectively are close enough to the accepted norms of 2 to 1 and 1 to 1 respectively. 10
This means that the firm has €1.03 available immediately for each €1 owed.

(d) Businesses take risks and for this they expect to earn more than they could get by investing their money in risk-free securities. The Return on Capital Employed for 2004 is 18.5%. This has improved from 14% in 2003. The return currently available from banks and 10 building societies is less than 5% so the company is performing well.

Question 6: solution

(a) 20

Accumulated Fund as at 1/1/2004

Assets	**€**	**€**
Clubhouse/Land	340,000 ❷	
Equipment	9,000 ❷	
Bar Stock	2,900 ❷	
Investments	20,000 ❷	
Subscriptions due	300 ❷	
Cash in hand	3,900 ❷	376,100
Less Liabilities		
Bar creditors	1,200 ❸	
Expenses due	720 ❸	1,920
Accumulated Fund as on 1/1/2004		**374,180** ❷

(b) 40

Income and Expenditure Account of Sliotar hurling club for the year ended 31/12/2004

Income			**€**
Bar Profit	**(W1)**		8,360 ❽
Interest			400 ❷
Subscriptions	**(W2)**		27,100 ❻
Advertising receipts			10,500 ❷
Raffle profit	**(W3)**		6,900 ❺
			53,260
Less Expenditure			
General expenses	**(W4)**	25,730 ❻	
Depreciation - Equipment 20%		3,100 ❹	
Depreciation - Clubhouse 2%		6,800 ❹	
Total Expenses			35,630
Surplus of Income/Expenditure			**17,630** ❸

Workings

1	**Bar Trading Account**		**€**
	Sales		44,200
	Less cost of sales		
	Stock 1/1/2004	2,900	
	Purchases (32,400 + 3,400 + 740 - 1,200)	35,340	
	Less stock 31/12/2004	(2,400)	35,840
	Bar profit		**8,360**
2	**Subscriptions received**	28,300	
	Less amount prepaid 31/12/2004	(900)	
	amount due 1/1/2004	(300)	27,100
3	**Profit on raffle** - receipts	9,400	
	Less cost of tickets and prizes	(2,500)	6,900
4	**General expenses**	26,000	

Less Expenses due 1/1/2004	(720)	
Add Expenses due 31/12/2004	450	25,730

Question 6: (continued)

(c) 30

Balance Sheet for Sliotar hurling club as on 31/12/2004

	Cost	Depreciation	Net
Fixed Assets	**€**	**€**	**€**
Clubhouse/land	340,000 ❸	6,800 ❷	333,200
Equipment	15,500 ❸	3,100 ❷	12,400
	355,500	9,900	345,600
Investments			20,000 ❷
			365,600
Current Assets			
Bank		25,900 ❸	
Bar stock		2,400 ❸	
		28,300	
Creditors amount due within 1 year			
Bar Creditors	740 ❸		
Expenses due	450 ❸		
Subs prepaid	900 ❸	2,090	
Working Capital			26,210
			€391,810
Financed by:			
Accumulated Fund 1/1/2004			374,180 ❷
Add Surplus Income/Expenditure			17,630 ❶
			€391,810

(d) 10

The balance in the Receipts and Payments Account merely shows the amount of cash left over on the last day of the period covered by the account. An organisation could have cash on hand but still have unpaid bills in excess of the cash balance.

The balance in the Income and Expenditure Account represents the surplus of income or excess of expenditure for the period covered by the account. It indicates whether an organisation is receiving enough income to cover its expenses for the period. The balance has been arrived at after accounting for such items as prepayments, accruals and depreciation.

Question 7 - solution.

(a) 30

Reconciliation of Operating Profit to net cash flow.

	€	
Operating profit	196,000	❸
Depreciation	9,000	❻
Increase in Stock	(11,000)	❻
Increase in Debtors	(17,000)	❻
Decrease in Creditors	(6,000)	❻
Net Cash inflow from operating activities	171,000	❸

(b) 65

Cash Flow Statement of Belmont Ltd for the year ended 31/1220/04

			€	
Operating Activities ❷				
Net cash inflow from operating activities			171,000	❷
Return on investments and servicing of finance ❷				
Interest paid			(5,000)	❽
Taxation ❷				
Tax paid			(34,000)	❽
Capital Expenditure and Financial Investment ❷				
Purchase of land/buildings			(80,000)	❽
Equity / Ordinary Dividend paid ❷				
Dividend paid			(28,000)	❽
Net cash inflow before liquid resources and financing			**24,000**	
Financing ❷				
Issue of ordinary share capital	23,000	❽		
Receipts from debenture loan	40,000	❽	63,000	
Increase in cash			**87,000**	❸

(c) 5

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period		87,000	❷
Cash receipt from debentures		(40,000)	❶
Change in net debt		47,000	❶
Net debt at 1/1/2004	(80,000 – 11,000)	(69,000)	❶

Net debt at 31/12/2004	(22,000)

Question 8 - solution.

80

(a) Absorption rate per machine hour = $\frac{€84,000}{12,000 \text{ hrs}}$ = €7 per machine/hour ⓯

(b) Absorption rate per labour hour = $\frac{€84,000}{7,000 \text{ hrs}}$ = €12 per labour/hour ⓯

(c) Cost of Job No. 624

			Machine Hrs
			€
Direct materials			10,000 ❸
Direct labour	**W 1**		1,360 ❺
Factory overheads	250 Machine hours @ €7		1,750 ❺
Cost of Job			€13,110 ❹

(d) Cost of Job No. 624

		Labour Hrs
		€
Direct materials		10,000 ❸
Direct labour	**W 1**	1,360 ❺
Factory overheads	170 direct labour hrs x €12	2,040 ❺
Cost of Job		€13,400 ❹

(e) Selling Prices

	Labour hrs	**Machine hrs**
	€	**€**
Cost of Job	13,400	13,110.00
mark up 25%	3,350	3,277.50
Selling price	€16,750 ❽	€16387.50 ❽

Working 1

$\frac{\text{Budgeted direct Labour}}{\text{Budgeted Labour Hours}}$ = $\frac{56,000}{7,000}$ = €8

Direct labour cost for Job 624 170 hours @ €8 = €1,360

Question 9 - solution

(a) 14

Sales Budget

	Roadstar	**Climber**
Budgeted quantities	800	500
Budgeted selling price	€220	€290
Budgeted Sales Value	**€176,000** ❼	**€145,000** ❼

(b) 16

Production Budget

	Roadstar	**Climber**
Budgeted sales	800	500
Add budgeted closing stock	220	180
	1,020	680
Less budgeted opening stock	(240)	(110)
Budgeted Production in units	780 ❽	570 ❽

(c) 16

Materials Usage Budget

		Material A	**Material B**	
Roadstar	(780 x 6 kg)	4,680 kg	6,240 kg	(780 x 8 kg)
Climber	(570 x 4 kg)	2,280 kg	2,850 kg	(570 x 5 kg)
Budgeted material usage		6,960 kg ❽	9,090 kg ❽	

(d) 20

Material Purchases Budget

	Material A	**Material B**	
Budgeted Material Usage in kg's	6,960 ❶	9,090 ❶	
Add Budgeted Closing stock	470 ❸	640 ❸	
	7,430	9,730	
Less Budgeted Opening stock	(400) ❸	(560) ❸	
Material Purchases Budget in kg's	7,030	9,170	
Budgeted Purchase price per kg	€12 ❶	€15 ❶	
	€84,360 ❷	€137,550 ❷	€221,910

(e) 14

Labour Budget

Roadstar	(Production x Labour hrs per unit)	(780 units x 8 hrs)	6,240 ❹
Climber	(Production x Labour hrs per unit)	(570 units x 11 hrs)	6,270 ❹
Budgeted direct labour hours			12,510
Labour rate per hour			€14 ❷
Direct labour budget in €'s			€175,140 ❹