Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2008

MARKING SCHEME

ACCOUNTING

HIGHER LEVEL

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ACCOUNTING

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<u>LEAVING CERTIFICATE ACCOUNTING - 2008</u>

<u>Higher Level Marking Scheme</u>

INTRODUCTION

The solutions and marking scheme for Accounting Higher Level are attached.

Marks allocated to each line/figure are highlighted and shown in brackets like this **[6]** 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 not as 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 a calculation in section (a) is incorrect, allowance is made for this in subsequent sections.

Accounting Higher Level – Marking Scheme

80

Question 1

Trading and Profit and Loss Account for the year ending 31/12/2007 [1]

		€	€	€
Sales				729,000 [3]
Less Cost of Sales				
Stock			65,600 [3]	
Add Purchases	W1		490,400 [10]	
			556,000	
Less Stock 31/12/2007	W2		(79,800) [6]	(476,200)
Gross Profit				252,800
Less Expenses				
Administration				
Patent written off	W3	11,000 [5]		
Salaries and General expenses		85,000 [3]		
Discount	W4	1,700 [6]		
Rent		9,000 [3]		
Insurance	W5	6,100 [7]		
Depreciation – Buildings		11,600 [4]	124,400	
Selling and Distribution				
Commission		4,200 [3]		
Depreciation –Delivery van	W6	13,425 [5]		
Loss on sale of van	W7	8,750 [5]	26,375	(150,775)
				102,025
Add Operating Income				
Bad debt recovered				1,000 [3]
Operating Profit				103,025
Add Investment Income	W8			7,800 [4]
				110,825
Less Mortgage Interest	W9			(6,600) [5]
Net Profit				104,225 [4]

Question 1 - continued

40

Balance Sheet as at 31/12/2007

		Cost	Acc.Dep	Net	Total
Intangible Fixed Assets		€	€	€	€
Patents (55,000 – 11,000)					44,000 [4]
Tangible Fixed Assets					
Buildings	W10	800,000 [1]		800,000	
Delivery Vans	W11 & 12	91,000 [2]	14,175 [3]	76,825	
		891,000	14,175	876,825	876,825
Financial Assets					
8% Investments					130,000 [2]
					1,050,825
Current Assets					
Stock			79,800 [2]		
Debtors	W13	40,400 [2]			
Less provision		(1,200) [2]	39,200		
Investment income due	W8		5,200 [2]	124,200	
Creditors: Amounts falling due within one year					
Creditors	W14		118,600 [2]		
Bank	W15		15,300 [2]		
VAT			4,100 [2]		
PRSI			3,900 [2]		
Mortgage interest due			6,750 [2]	(148,650)	(24,450)
					1,026,375
Financed by					
Creditors: amounts falling due after more than one year					
6% Mortgage					150,000 [2]
Capital				485,000 [2]	
Add Net Profit				104,225 [1]	
				589,225	
Less Drawings	W16			(39,450) [3]	549,775
Revaluation Reserve	W17				326,600 [2]
Capital Employed					1,026,375

Question 1 workings

1.	Purchases	512,400 + 4,800 – 26,000 + 800 - 1,600	490,400
2.	Closing stock	75,000 + 4,800	79,800
3.	Patents written off	(52,400 + 2,600) ÷ 5	11,000
4.	Discount	1,900 - 200	1,700
5.	Insurance	6,150 – 250 + 200	6,100
6.	Depreciation Delivery van	8,250 + 1,125 + 4,050 12,750 + 675 3,188 + 10,237	13,425
7.	Loss on sale of van	30,000 - 11,250 -10,000	8,750
8.	Investment Income	2,600 - 5,200	7,800
9.	Mortgage Interest	8,250 – 1650 [1,250 + 250 + 6,750] x 80% [6,000 + 2,250 – 1,650]	6,600
10.	Buildings	580,000 + 220,000	800,000
11.	Delivery vans at cost	85,000 + 36,000 - 30,000	91,000
12.	Provision for Dep – vans	12,000 + 13,425 - 11,250	14,175
13.	Debtors	40,000 + 400	40,400
14.	Creditors	113,000 + 4,800 + 800	118,600
15.	Bank	15,900 - 600	15,300
16.	Drawings	36,200 + 1,650 + 1,600	39,450
17.	Revaluation Reserve	220,000 + 95,000 + 11,600	326,600

Penalty of I mark each for omission of two headings in Profit and Loss Account

Question 2

Note: In the case of candidates taking the Irish version of the paper:

Where a candidate prepares a Debtors Control Account as a result of the translation error in Section 1, Question 2, part (a) of the Irish version of the paper, allow allocated marks for candidate's response to this part of the question where the correct figure or part of the correct computation is applied.

(a) **24**

Adjusted Creditors Control Account

Balance b/d		630 [1]	Balance b/d		17,550 [2]
Invoice	(i)	60 [4]	Interest	(iii)	50 [4]
Credit Note	(ii)	120 [4]	Discount disallowed	(vi)	64 [4]
Credit Note	(v)	79 [4]	Balance c/d		630 [1]
Balance c/d		17,405			
		18,294			18,294
Balance b/d		630	Balance b/d		17,405

(b) **30**

Schedule of Creditors Accounts Balances

			€	€
Balance as per list of debtors				16,190 [1]
Add	Invoice	(i)	510 [5]	
	Discount disallowed	(vi)	64 [5]	
	Cash purchases	(iv)	140 [5]	
	Restocking charge	(v)	110 [5]	824
				17,014
Deduct	Credit note adjustment	(ii)	222 [4]	
	Interest	(iii)	17 [4]	239
Net Balance as per adjusted Control Account				16,775 [1]

(c) **6**

1. They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.
2. Errors can be found more speedily using Control Accounts.
3. They are useful when a firm needs to find credit sales or credit purchases from incomplete records.
4. They allow amounts owed by Debtors and amounts owed to creditors to be ascertained quickly by simply balancing the control accounts.

Question 3

25

Accumulated Fund 1/1/2007

Assets		€		
Clubhouse		750,000	[1]	
Bar stock		7,000	[1]	
Equipment		26,000	[1]	
Bar Debtors		535	[1]	
Investments	**W 1**	24,000	[2]	
Investment interest due		400	[2]	
Bank current account		14,000	[2]	
Levy due (250x10)		2,500	[2]	824,435
Less Liabilities				
Life membership		40,000	[2]	
Bar creditors		6,000	[1]	
Levy reserve fund		50,000	[2]	
Wages due		2,500	[1]	
Loan		30,000	[1]	
Loan interest due	**W 2**	2,600	[2]	
Subscriptions prepaid		1,600	[2]	132,700
Accumulated Fund/Capital 1/1/2007				691,735 [2]

(b)

25

Income & Expenditure Account for year ended 31/12/2007

Income				
Bar profit		35,980	[4]	
Investment interest	**W 3**	1,200	[2]	
Entrance fees		15,000	[1]	
Catering profit (14,000-8,000)		6,000	[1]	
Annual sponsorship		25,000	[1]	
Subscriptions	**W 4**	194,500	[5]	
Life membership		4,200	[2]	281,880
Less Expenses				
Sundry expenses (186,400-2,500)		183,900	[2]	
Golf lessons		4,600	[1]	
Loan interest		1,000	[2]	
Depreciation - equipment		14,200	[1]	
Depreciation - clubhouse		15,000	[1]	(218,700)
Surplus of Income over Expenditure for the year				63,180 [2]

Bar Trading Account

		€	€
Sales	[110,490 + 275 -535]		110,200
Less Cost of goods sold			
Stock 1/1/2007		7,000	
Add Purchases	[78,500 + 3,220 – 6,000]	75,720	
		82,720	
Less Closing Stock		(8,500)	(74,220)
Bar Profit			35,980

Workings:

1. Investments		5% = 1,200 100%	=	24,000
2. Loan interest due 1/1/2007		3,600 - 1,000	=	2,600
3. Investment interest		1,600 - 400		1,200
4. Subscriptions	1,600 + 250,000 - 2,000 - 50,000 - 2,500 - 2,600		=	194,500

(c)

10

(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 lottery, dances, bar, restaurants etc. All expenses and revenues relating to that particular activity are entered in a special profit and loss account and the profit is then transferred to the income and expenditure account.

(ii) [7]

The proposed levy would raise €200,000 over 4 years [250 x 200 x 4]

Yes/No
As a member I would make the case that the club is capable of generating enough income from within as it has a surplus of income of €63,180. The club is financially sound as it has cash of €13,960, building society investment of €60,000 and 5% government investments €24,000 totalling €97,960 even after it has paid off a loan and interest of €33,600 and had purchased equipment for €45,000.

However a sizeable proportion of the surplus is provided by Entrance Fees of €15,000 and Sponsorship of €25,000. This income cannot be guaranteed in future years.

Question 4

37

(a)

Profit and Loss Account of Lemont PLC for the year ended 31/12/2007

			€	
Turnover	[1]		1,990,000	[3]
Cost of Sales			(1,103,000)	[4]
Gross Profit			887,000	
Distribution Costs		W1	(302,600)	[4]
Administration Expenses		W2	(236,400)	[5]
			348,000	
Other operating income			71,000	[3]
Operating Profit			419,000	
Investment Income			13,000	[3]
Profit on sale of land			70,000	[2]
			502,000	
Interest payable			(24,000)	[2]
Profit on ordinary activities before tax	[1]		478,000	
Taxation			(85,000)	[2]
			393,000	
Dividends paid			(43,000	[2]
			350,000	
Profit brought forward at 1/1/2007			50,000	[2]
Profit carried forward at 31/12/2007			400,000	[3]

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Notes to the Accounts

1. **Accounting policy notes**. **[4]**
   Tangible Fixed Assets
   Buildings were re-valued at the end of 2007 and have been included in the accounts at their re-valued amount.
   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 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** **[2.5]**
   The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	53,000
Patent amortised	10,000
Directors remuneration	50,000
Auditors fees	8,000

3 **Financial Fixed Assets** **[2]**

	1/1/2007	**31/12/2007**
Quoted investments	200,000	200,000
Unquoted Investments	60,000	60,000
	260,000	260,000

The market value of the quoted investments on 31/12/2007 was €220,000.
The directors valuation of the unquoted investments on 31/12/2007 was €70,500

4 **Dividends** [1]

Ordinary dividends		
Paid 10.0c per share	35,000	
Preference dividends		
Paid 8.0c per share	8,000	43,000

5 **Tangible Fixed Assets** [3.5]

	Land & Buildings	**Vehicles**	**Total**
1/1/2007	740,000	200,000	940,000
Disposal	(90,000)		(90,000)
Revaluation surplus	150,000		150,000
Value at 31/12/2007	800,000	200,000	1,000,000
Depreciation 1/1/2007	41,000	38,000	79,000
Depreciation charge for the year	13,000	40,000	53,000
	54,000	78,000	132,000
Transfer on revaluation	(54,000)		(54,000)
Depreciation	Nil	78,000	78,000
Net book value 1/1/2007	699,000	162,000	861,000
Net book value 31/12/2007	800,000	122,000	922,000

Workings

Cost of sales		
Opening stock	65,000	
Purchases	1,250,000	
Closing stock	(222,000)	
Patents amortisation	10,000	1,103,000
Distribution costs		
As per Trial balance	260,000	
Depreciation Buildings	2,600	
Vehicles	40,000	302,600
Administrative Expenses		
As per Trial balance	160,000	
Directors fees	50,000	
Auditors fees	8,000	
Patent Royalties	8,000	
Depreciation Buildings 80%	10,400	236,400
Other Operating Income		
Rental	50,000	
Discount	13,000	
Royalties	8,000	71,000
Investment Income 10,000 + 3,000		13,000

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(b)

(i) When a Contingent Liability is possible but unlikely, it is not necessary to make provision in the accounts. However, a note should show the nature of the liability, an estimate of the amount and an opinion regarding the outcome. [5]

(ii) Accountants must observe regulations laid down by: [5]
The Companies Acts
The Financial Reporting council/Accounting Standards Board
The Stock Exchange

Question 5 **45**

Dividend Yield	DPS x 100 / Market Price	=	6.25c x 100 / 130c	=	**4.81%** [10]
Opening stock	Cost of sales / Average stock = 10	=	630,000 / 10 x average stock		
Average stock		=	63,000		
Opening stock		=	(63,000 x 2) less 64,000	=	**€62,000** [9]
Earnings per share	Net profit after Pref Div / Number of ordinary shares		84,000 – 20,000 / 400,000	=	**16c** [9]
Period to recoup price	Market price / Dividend per share	=	130 / 6.25c	=	**20.8 years** [9]
Price/earnings ratio	Market price / EPS	=	130 / 16c	=	**8.125 times** **8.125 years** [8]

(b) **40**

Profitability **[8]**

Whelan Ltd is a profitable business. The return on capital employed was 10.94% in 2007 and 9% in 2006. This indicates that the firm is earning over twice the return available from risk free investments of about 5%. The profitability has improved by 1.94%.

Dividend policy **[7]**

The Dividend Per Share in 2007 is 6.25c and was 5c in 2006. This has improved by 1.25c since 2006.
The company's dividend cover in 2007 is 2.56 times but was 3 times in 2006.
A smaller percentage of the profits is retained in 2007 than in 2006.
The company is re investing ample profits for expansion purposes
The dividend yield is 4.81% in 2007 and 6% in 2006.
This yield has declined since last year but is still above the return from risk free investments of about 5%.
The real return to ordinary shareholders would be 12.30% based on available profits.
The shareholders would prefer a high dividend yield.

Liquidity **[7]**

The company has a liquidity problem. The quick ratio in 2006 was 1.1 to 1 but this deteriorated to 0 .7 to 1 in 2007. The company has only 70c 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.
If this trend continues, ability to pay interest would come under pressure and funds would not be available for the purpose of repaying the loan.

Gearing **[8]**

The gearing of the company is 44.86%. [81.34%]. This is a lowly geared company and this means that the company is not dependant on outside borrowing
This would please the shareholders as it increases their chance of getting a dividend and there is little risk from outside investors.
However, the gearing has slipped from 40% of total capital in 2006.
Interest cover was 8 times but it is now down to 6.25 times. If this trend continues it could jeopardise interest payment.

Market value of shares **[5]**

The market value of the share in 2006 was €1.35 while in 2007 it has dropped to €1.30.
The EPS has dropped from 18c to 16c.
The share may be overpriced as it takes 8.125 years to recover its market price.
This would indicate a lack of public confidence in the company.
Shareholders would be unhappy.

Sector **[5]**

The long term prospects in the building materials industry are not encouraging
There has been a slow down in the construction industry which has led to unemployment and lower profits in the sector. Forecasts for the future indicate a slowing down in the sector.

Investment Policy

The investments made by the company cost €170,000.
These investments now have a market value of €160,000 **-** a drop in value of 5.88%.or €10,000
This indicates poor management of resources and would not please the shareholders.

(c) **15**

A rising liquidity ratio is not **always** a sign of prudent management.

A rising liquidity ratio could be a sign of prudent management because it indicates that it is easier for the firm to pay it's short term debts on time and thus avoid paying interest or enables it to avail of cash discounts.

However, if the liquidity ratio rises significantly above 1:1, it could mean that too much of the company's resources are tied up in liquid assets when they could be used to earn more profits. Management may be leaving cash resources idle.

Question 6

85

Abridged Profit and Loss account for the year ending 31/12/2007

	€	
Operating profit	169,000	
Less interest	(17,000)	[3]
Profit before tax	152,000	
Taxation	(60,000)	[3]
Profit after tax	92,000	
Dividends paid	(54,000)	[3]
Retained profit	38,000	
Profit and loss balance 1/1/2007	452,000	[3]
Profit and loss balance 31/12/2007	490,000	[3]

Reconciliation of operating profit to net cash flow from operating activities

		€	
Operating profit		169,000	[1]
Depreciation charge for the year	W 1	150,000	[5]
Profit on sale of fixed assets	W 2	(10,000)	[5]
Increase in stock		(108,000)	[3]
Increase in debtors		(60,000)	[3]
Decrease in creditors		(33,000)	[3]
Net cash inflow from operating activities		108,000	[2]

Cash Flow statement of Hayes PLC for the year ended 31/12/2007

		€		€	
Operating Activities					
Net cash inflow from operating activities				108,000	[3]
Return on Investments and Servicing of Finance [1]					
Interest paid				(17,000)	[3]
Taxation [1]					
Tax paid	W 3			(51,000)	[4]
Capital Expenditure and Financial investment [1]					
Sale of fixed assets		40,000	[3]		
Purchase of fixed assets		(190,000)	[3]		
Sale of investments		100,000	[3]	(50,000)	
Equity Dividends paid [1]					
Dividends paid				(54,000)	[3]
Net cash outflow before liquid resources and financing				(64,000)	
Management of Liquid Resources [1]					
Government securities				(70,000)	[3]
Financing [1]					
Issue of Debentures		50,000	[3]		
Issue of ordinary shares		60,000	[3]		
Share premium		18,000	[3]	128,000	
Decrease in Cash				**(6,000)**	[3]

Reconciliation of net cash to movement in net debt

	€	
Decrease in cash	(6,000)	[1]
Cash used to purchase liquid resources	70,000	[1]
Cash received from issue of debentures	(50,000)	[1]
Change in net debt	14,000	
Net debt at 1/1/2007	(84,000)	[1]
Net debt at 31/12/2007	(70,000)	[1]

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(b)

(i) [10]
Credit sales/purchases affect profit but do not affect cash.
Non-cash losses and gains affect profit but not cash.
Purchase and sale of fixed assets by cash affect cash but not profit.
Introduction or withdrawal of capital in cash affect cash but not profit.

(ii) [5]
The Accounting Standards Board issues new accounting standards called Financial Reporting Standards (FRS). It also amends and withdraws old accounting standards.

FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.
It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.

Workings

1. Depreciation	100,000 - 30,000 - 220,000	=	150,000
2. Profit on disposal	60,000 - 30,000 - 40,000	=	10,000
3. Taxation	39,000 + 60,000 - 48,000	=	51,000

Question 7 – Correction of errors

(a) **50**

Journal entries

		€		€	
(i)	Suspense	800	[2]		
	Bank			800	[2]
	Being correction of overdraft brought down on [1] incorrect side of bank account				
(ii)	Sales	2,800	[2]		
	Cash			2,800	[2]
	Debtors	2,800	[2]		
	Capital			2,800	[2]
	Being recording of sale of private jewellery to a business debtor treated incorrectly as a cash sale [1]				
(iii)	Debtor	600	[3]		
	Bank			550	[3]
	Discount allowed disallowed			50	[3]
	Bad debts account	600	[2]		
	Debtor			600	[2]
	Being recording of dishonouring a cheque [1] and recording bad debt.				
(iv)	Suspense	8,000	[2]		
	Bank			8,000	[2]
	Motor vehicles	12,000	[2]		
	Capital			12,000	[2]
	Being capital introduced in the form of a motor van and [1] the cancellation of an incorrect entry in the bank account.				
(v)	Creditors	260	[2]		
	Motor vehicles	260	[2]		
	Suspense			520	[2]
	Repairs	160	[2]		
	Drawings	100	[2]		
	Bank			260	[2]
	Being repairs and drawings omitted from cash book [1] And entered in error in both creditors and motor vans account.				

(b) **6**

Suspense Account

Bank (1)	800	[2]	Original difference	8,280	
Bank (4)	8,000	[2]	Creditors (5)	520	[2]
	8,800			8,800	

Question 7 - continued

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(c)

Statement of corrected net profit

	€		€	
Original Net Profit as per books			15,000	[1]
Add Discount disallowed (3)			50	[2]
			15,050	
Less				
Sales (1)	2,800	[3]		
Bad Debts (3)	600	[2]		
Repairs (5)	160	[3]	3,560	
Corrected Net Profit			11,490	[3]

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(d)

Balance Sheet as at 31/12/2007

Fixed Assets		€		€		€
Premises				400,000	[1]	
Motor vehicles	(20,000 + 12,000 + 260)			32,260	[2]	
Furniture and Equipment				16,000	[1]	448,260
Current Assets						
Stock		17,000	[1]			
Debtors	(5,600 + 2,800 + 600 - 600)	8,400	[3]			
Cash	(3,200 - 2,800)	400	[1]	25,800		
Creditors: Amounts falling due within 1 year						
Creditors	(12,200 – 260 - 8,280)	3,660	[2]			
Bank	(5,600 + 800 + 550 + 8,000 + 260)	15,210	[4]	18,870		6,930
						455,190
Financed By						
Capital	(441,000 + 2,800 +12,000)			455,800	[2]	
Net Profit				11,490	[1]	
				467,290		
Drawings	(12,000 + 100)			12,100	[2]	455,190
						455,190

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(e)

An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. Example: Goods sold on credit to Brian Brady debited in error to John Brady's account. [5]

An error of principle arises when an item is posted to the incorrect class of account. [5]
Example: A boutique owner purchased a vehicle and treated it as a purchase of stock

Question 8

80

(a)

	€	€	€ per unit
Sales (14,000 units – 70%)		560,000	40.00
Less Variable Costs			
Direct materials	120,000		
Direct lab	140,000		
Factory overhead	30,000		
Administration overhead	49,500	339,500	24.25
Contribution		220,500	15.75
Less Fixed Costs			
Factory overhead	60,000		
Administration overhead	62,500	122,500	
Net Profit		98,000	

(i)

Break even point Fixed Costs / CPU = [5] 122,500 / [5] 15.75 = [3] 7,778 units

Margin of safety Sales – break even point
[3] 14,000 – 7,778 [3] = [2] 6,222 units

(ii) Profit from reduced selling price

Sales	(20,000 x €38.00)	760,000	[3]
Less variable costs	(20,000 x €24.25)	485,000	[3]
– fixed costs		132,500	[3]
Profit		142,500	[2]

(iii) Number of Units that must be sold

Let N be the no of units

Sales = V.C. + F.C. + Profit

36N = 24.25N + 122,500 + [20% of 36N]

36N – 24.25N – 7.2N = 122,500

4.55N [7] = 122,500 [4]

N = 26924 units [2]

(iv) The profit they would Make from S.P of €42

Sales	[19,000 x €42]	798,000	[3]
Less Variable costs	[19,000 x (24.25 + 1 + 2.10)]	519,650	[5]
Contribution		278,350	
Less Fixed costs		122,500	[1]
Profit		155,850	[2]

(v) To calculate the break even point [2]
When necessary figures are not available – variable cost or selling price or units

(b)

Production overheads	**Units**	**Total Cost**
		€
High	18,000	114,000
Low	10,000	66,000
Difference	8,000	48,000

The variable cost of 8,000 units is 48,000, therefore the variable cost per unit is **€6** [3]

Total production overhead cost	66,000	96,000	114,000	
Less variable costs	60,000	90,000	108,000	
Therefore, Fixed cost	6,000	6,000	6,000	[3]

Other overhead costs	**Units**	**Total Cost**
		€
High	18,000	99,000
Low	10,000	57,000
Difference	8,000	42,000

The variable cost of 8,000 units is 40,000, therefore the variable cost per unit is **€5.25** [3]

	10,000	**15,000**	**18,000**	
Total other overhead costs	57,000	83,250	99,000	
Less variable costs	52,500	78,750	94,500	
Therefore, Fixed cost	4,500	4,500	4,500	[3]

Flexible Budget in Marginal Costing format

Sales				785,000	[1]
Less Variable Costs					
Direct Materials	(19,000 x 14)	266,000 [1]			
Direct Labour	(19,000 x 8)	152,000 [1]			
Production overheads	(19,000 x 6)	114,000 [1]			
Other overhead costs	(19,000 x 5.25)	99,750 [1]		631,750	
Contribution			[1]	**153,250**	
Less Fixed Costs					
Production overheads		6,000 [1]			
Other overheads		4,500 [1]			
Administration		25,000 [1]		35,500	
Profit				117,750	[1]

Total cost is 85% of sales.

Total cost = 631,750 + 35,500	=	667,250
85% of sales	=	667,250
100%	=	785,000

Question 9

Note: In the case of candidates taking the Irish version of the paper: As a result of a typographical error in the Irish version of Question 9, accept computations based on either €269 or €260 as the sales figure for Supreme.

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Sales Budget	**Super**	**Supreme**
Expected sales in units	10,000	4,200
Expected selling price per unit	€220	€260
Budgeted Sales Revenue	€2,200,000	€1,092,000

Production budget	**Super Units**		**Supreme Units**	
Required by sales	10,000	[3]	4,200	[3]
Closing stock (80% of opening stock)	480	[3]	360	[3]
	10,480		4,560	
Opening stock	600	[3]	450	[3]
Budgeted production in units	**9,880**		**4,110**	

Raw Materials Purchases Budget

		Material x Kgs		**Material y Kgs**		
Required by production – **Super**	(9,880 x 7)	69,160	[2]	59,280	[2]	(9,880 x 6)
– **Supreme**	(4,110 x 5)	20,550	[2]	32,880	[2]	(4,110 x 8)
		89,710		92,160		
Closing stock (80% of opening stock)		4,000	[2]	2,400	[2]	
		93,710		94,560		
Less Opening stock		5,000	[2]	3,000	[2]	
Required purchases of raw materials in Kg's		88,710		91,560		
Purchase Price		€3	[1]	€5	[1]	
Purchase Cost		**€266,130**		**€457,800**		**€723,930**

Production Cost/Manufacturing Budget

Cost of raw materials consumed:					
Opening stock of raw materials	Super	(5,000 x 2.50)	12,500		
	Supreme	(3,000 x 4.50)	13,500	26,000	[4]
Purchases	(266,130 + 457,800)			723,930	[2]
				749,930	
Less closing stock of raw materials	Super	(4,000 x 3)	12,000		
	Supreme	(2,400 x 5)	12,000	(24,000)	[4]
				725,930	
Cost of Labour	(9,880 x 7 x 13)		899,080		
	(4,110 x 8 x 13)		427,440	1,326,520	[4]
Variable overheads	(9,880 x 7 x 4)		276,640		
	(4,110 x 8 x 4)		131,520	408,160	[6]
Fixed overheads				204,080	[2]
Cost of Manufacture				**2,664,690**	[4]

Question 9 – continued

Budgeted Trading Account

					€	
Sales of finished goods (2,200,000 + 1,092,000)					3,292,000	[2]
Opening stock of finished goods						
Super	(600 x 120)	72,000				
Supreme	(450 x 140)	63,000	135,000	[2]		
Cost of Manufacture			2,664,690	[2]		
			2,799,690			
Less Closing stock of finished goods						
Super	(480 x 180)	86,400				
Supreme	(360 x 210)	75,600	(162,000)	[4]	2,637,690	
Gross Profit					654,310	[4]

(e) [4]

(i) **Capital Budget**: This budget deals with any planned capital expenditure e.g. purchase of fixed assets and planned capital receipts such as the sale of the fixed assets.
Decisions relating to these items would be the responsibility of the board of directors. The carrying out of the capital budget is the responsibility of the financial controller.

(ii) **Principal Budget Factor:** Apart from sales demand the principal budget factor could also be:
Supply of materials
Availability of labour
Capacity of the plant
Availability of capital