Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2022

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.

Question 1 (a) Final Accounts of a manufacturing company

Manufacturing account of McGuigan Ltd for year ended 31/12/2021

75

Manufacturing account for year ended 31/12/2021[1]		
Opening stock raw materials	27,300**[1]**	
Purchases raw materials (N 1)	709,400**[4]**	
Closing stock raw materials	(28,300) **[1]**	
Cost of raw materials consumed		**708,400**
Direct Costs		
Factory Wages (N2)	88,440**[4]**	
Royalties	29,600**[1]**	
Hire of Special Equipment	37,800**[1]**	**155,840**
Prime Cost		864,240
Factory Overheads		
General Factory overhead (N3)	114,300[6]	
Depreciation Plant & Machinery (N4)	47,625**[4]**	
Loss on machine (N5)	2,375**[3]**	
Depreciation on factory building (N6)	20,246**[3]**	**184,546**
		1,048,786
Add Opening stock Work In Progress	38,650 **[2]**	
Less Closing stock Work In Progress	27,600 **[2]**	**11,050**
		1,059,836
Less Sale of Scrap (N7)		(11,950) **[3]**
Cost of Manufacture		**1,047,886**

Trading Profit and loss account of McGuigan Ltd for year ended 31/12/2021		
Sales (N8)		1,660,800 **[4]**
Less Cost of Sales		
Opening Stock	38,400 **[1]**	
Cost of Manufacture	**1,047,886[2]**	
Closing Stock (N9)	(49,000) **[3]**	(1,037,286)
Gross Profit		623,514
Less expenses		
Selling and Distribution Costs		
Bad debt (N10)	1,500 **[2]**	
Selling expenses	45,000 **[2]**	
Increase in Bad Debt Provision (N11)	212**[4]**	
Administration Expenses		
Administration Expenses	57,900 **[2]**	
		(104,612)
		518,902
Add Operating Income		
Rent	15,700 **[3]**	
Discount	5,350 **[3]**	21,050
Operating Profit		539,952
Investment Income (N12)		7,500 **[2]**
Debenture Interest (N13)		(23,000) **[4]**
Net Profit		**524,452**
Dividend Paid		(27,500) **[2]**
Retained Profit		**496,952**
Profit & Loss Balance 01/01/2021		69,500 **[2]**
Profit & Loss Balance 31/12/2021		**566,452 [3]**

Balance sheet McGuigan Ltd as at 31/12/2021			
Tangible Fixed Assets	**Cost**	**Acc Dep**	**NBV**
Factory Buildings (N14 and N15)	1,012,300 **[3]**	45,246**[2]**	967,054
Plant and Machinery (N16 and N17)	310,000 **[2]**	77,000 **[3]**	233,000
	1,322,300	122,246	1,200,054
Financial Assets			
Investments			250,000**[2]**
Current Assets			
Closing Stock Raw Materials	28,300 **[2]**		
Closing Stock Work In Progress	27,600 **[2]**		
Closing Stock Finished Goods	49,000 **[3]**	104,900	
Debtors (N18)	81,550 **[5]**		
Less Bad Debt Provision	(3,262) **[1]**	78,288	
Investment Income due (N19)		4,700 **[2]**	
		187,888	
Current Liabilities			
Bank (N20)	80,900 **[4]**		
Creditors (N21)	60,000 **[3]**		
PAYE	1,850 **[1]**		
Wages due	740 **[1]**		
Debenture Interest due (N22)	18,000 **[2]**	(161,490)	26,398
			1,476,452
Financed By			
Debentures	**Authorised**	**Issued**	300,000**[2]**
Ordinary Share Capital	1,500,000 **[1]**	460,000 **[1]**	
Preference Share Capital	500,000 **[1]**	150,000 **[1]**	
	2,000,000	610,000	
Revenue reserve / Profit & Loss Balance 31/12/2021		566,452 **[1]**	1,176,452
			1,476,452

Question 1 A

1.	Purchases	760,400 + 11,000 – 62,000	709,400
2.	Wages	148,000 + 740 – 60,300	88,440
3.	General factory overheads	126,700 – 1,400 – 11,000	114,300
4.	Depreciation on machinery	12,750 + 34,875 **OR** 1,125 + 46,500	47,625
5.	Loss on Machine	30,000 – 7,000 – 20,625	2,375
6.	Depreciation buildings	2% x 1,012,300	20,246
7.	Sale of scrap	18,950 – 7,000	11,950
8.	Sales	1,650,000 + 10,800	1,660,800
9.	Closing stock - FG	58,000 – 9,000	49,000
10.	Bad debts	5,000 x 30%	1,500
11.	Increase in bad debts provision	3,262 – 3,050	212
12.	Investment income	4% of 250,000 x .75	7,500
13.	Debenture interest	5,000 + 18,000 **OR** 3,000 + 20,000	23,000
14.	Buildings - cost	890,000 + 60,300 + 62,000	1,012,300
15.	Buildings -AD	25,000 + 20,246	45,246
16	Machinery - cost	340,000 – 30,000	310,000
17.	Machinery - AD	50,000 + 47,625 – 20,625	77,000
18.	Debtors	76,350 + 10,800 – 5,000 - 600	81,550
19.	Investment income due	7,500 – 2,800	4,700
20.	Bank	85,000 -3,500 – 600	80,900
20.	Bank	76,200 + 4,700	80,900
21.	Creditors	61,400 – 1,400	60,000
22.	Interest due	23,000 – 5,000	18,000

Question 1 (b)Final Accounts of a company

Trading Profit and Loss Account of McCormack Ltd for the year ended 31/12/2021 [1]

75

		€		€		€	
Sales						1,850,000	[1]
Less Cost of Sales							
Opening stock				51,500	[2]		
Purchases	N1			875,600	[7]		
Less closing stock	N2			(75,400)	[4]	(851,700)	
Gross Profit						998,300	
Less Expenses							
Distribution Costs							
Bad Debts written off	N3	10,500	[4]				
Increase in Bad Debt Provision	N4	134	[4]				
Advertising		8,400	[3]				
Sales Commission		32,000	[2]	51,034			
Administration Expenses							
Patents written off	N5	16,250	[4]				
Dep: Equipment	N6	70,400	[5]				
Loss on Disposal Equip	N7	400	[4]				
Dep: Land & Building	N8	12,800	[4]				
Loss on Fire	N9	5,000	[3]				
Wages & Salaries		196,700	[3]				
Insurance		25,000	[3]				
Directors Fees	N10	98,000	[4]	424,550		(475,584)	
Add Operating Income						522,716	
Bad Debt Recovered	N11			12,000	[3]		
Discount				17,500	[1]	29,500	
Operating Profit						552,216	
Investment Income	N12					2,250	[3]
						554,466	
Less Debenture Interest	N13					(20,100)	[4]
Net Profit before Taxation						534,366	
Taxation						(60,000)	[1]
Net Profit after Taxation						474,366	
Less Dividends paid						(65,100)	[1]
Retained profit						409,266	
Capital Reserve						(250,000)	[1]
						159,266	
P&L balance 01/01/2021						127,000	[1]
P&L balance 31/12/2021						286,266	[2]

Balance Sheet of McCormack Ltd as at 31/12/2021 **45**

	Cost	Acc Dep	NBV
Intangible Fixed Assets			
Patents N14			48,750 **[2]**
Tangible Fixed Assets			
Land & Buildings	1,640,000 **[1]**	12,800 **[1]**	1,627,200
Equipment N15 and N16	440,000 **[1]**	131,800 **[3]**	308,200
	2,080,000	144,600	1,935,400
Financial Assets			
Investments			75,000 **[1]**
Current Assets			
Closing Stock		75,400 **[1]**	
Debtors N17	237,800 **[4]**		
Less Bad debts provision	(7,134) **[1]**	230,666	
Investment Income due N18		1,250 **[2]**	
Fire Insurance		115,000 **[2]**	
VAT		1,000 **[2]**	
		423,316	
Creditors: amounts falling due within 1 year			
Creditors N19	75,000 **[4]**		
Bank N20	53,900 **[6]**		
Debenture Interest due N21	12,600 **[2]**		
Directors Fees due N22	7,000 **[2]**		
PAYE & PRSI	27,700 **[1]**		
Taxation due	60,000 **[1]**	(236,200)	187,116
			2,246,266
Financed By			
Creditors: amounts falling due after 1 year			
6% Debentures			360,000 **[2]**
Share Capital	**Authorised**	**Issued**	
Ordinary shares @ €1 each	1,500,000**[1]**	1,000,000 **[1]**	
4% Preference shares @ €1 each	1,000,000**[1]**	350,000 **[1]**	
	2,500,000	1,350,000	
Reserves			
Capital reserve		250,000 **[1]**	
Profit & Loss balance		286,266 **[1]**	1,886,266
Capital Employed			2,246,266

Question 1 B

N1 Purchases	905,000 - 7,400 - 22,000	875,600
N2 Closing stock	82,800 – 7,400	75,400
N3 Bad debts	4,500 ÷ 30 x 70	10,500
N4 Provision for bad debts	7,000 – 7,134	134
N5 Patents written off	(64,000 + 1,000) ÷ 4	16,250
N6 Depreciation equipment	440,000 x (96% ÷ 6)	70,400
N7 Loss on sale	65,000 – 41,600 – 23,000	400
N8 Depreciation buildings	(1,640,000–1,000,000) x 2%	12,800
N9 Loss on fire	120,000 – 115,000	5,000
N10 Directors fees	91,000 + 7,000	98,000
N11 Bad debts recovered	9,000 + 3,000	12,000
N12 Investment income	(75,000 x .04) ÷ 12 x 9	2,250
N13 Debenture interest	18,000 + 2,100 OR 7,500 + 12,600	20,100
N14 Patents	65,000 – 16,250	48,750
N15 Equipment – cost	460,000 – 65,000 + 45,000	440,000
N16 Equipment – AD	103,000 + 70,400 – 41,600	131,800
N17 Debtors	249,800 – 15,000 + 3,000	237,800
N18 Investment income due	2,250 – 1,000	1,250
N19 Creditors	81,500 – 7,400 + 900	75,000
N20 Bank	68,300 – 900 – 4,500 – 9,000	53,900
N20 Bank	48,950 + 4,950	53,900
N21 Interest due	20,100 – 7,500	12,600
N22 Commission due	(1,850,000 – 1,500,000) x .02	7,000

Question 2

52

(a) Reconciliation of operating profit to net cash flow from operating activities. {13}

		€	
Operating Profit		227,000	[1]
Depreciation charge for the year	W1	45,400	[3]
Less Profit on Sale of Fixed Assets	W2	(1,000)	[3]
Less Increase in Stock		(36,000)	[2]
Less Increase in Debtors		(13,400)	[2]
Increase in Creditors		9,000	[2]
Net Cash Inflow from Operating Activities		231,000	

Workings

1	Depreciation Expense Machinery Depreciation Expense Building	209,000 – 187,600 +9,000 = 75,000- 60,000 =	30,400 15,000	45,400
2	Profit on Sale of Machinery	41,000 – 33,000 -9,000	=	1,000
3	Investment Income Received	950 + 3,800 – 1,050	=	3,700
4	Debenture Interest Paid	2,000 + 12,000 – 2,600	=	11,400
5	Taxation Paid	48,000 + 66,000 – 52,000	=	62,000
6	Payment for purchase of Buildings	850,000 – 732,000		118,000
	Cost of disposed Machinery	438,000 – 397,000		41,000
	Depreciation to date on Disposed Machinery			9,000

Cash Flow statement of Puspure plc for the year ended 31/12/2021 {34}

		€	€
Operating Activities			
Net cash inflow from operating activities			231,000 [1]
Return on Investment and Servicing of Finance [1]			
Investment Income Received	W3	3,700 [3]	
Debenture Interest Paid	W4	(11,400) [3]	(7,700)
Taxation [1]			
Tax Paid	W5	(62,000) [3]	(62,000)
Capital Expenditure and Financial Investments [1]			
Payments to Acquire Buildings	W6	(118,000) [2]	
Receipts for Sale of Machinery		33,000 [1]	
Proceeds from sale of Investments		20,000 [2]	(65,000)
Equity Dividends Paid [1]			
Equity Dividends Paid		(30,800) [2]	(30,800)
Net Cash Inflow before Liquid Resources and Financing			65,500
Management of Liquid Resources [1]			
Purchase of Government Securities		(25,000) [2]	(25,000)
Financing [1]			
Repayment of Debentures		(100,000) [2]	
Receipts from Issue of Ordinary Shares		70,000 [2]	
Receipts from Share Premium		12,000 [2]	(18,000)
Increase in Cash			22,500 [3]

Reconciliation of Net Cash to Movement in Net Debt {5}

	€	€	
Increase in Cash		22,500	**[1]**
Cash used to Purchase Liquid Resources		25,000	**[1]**
Repayment of Debentures		100,000	**[1]**
Change in Net Debt		147,500	
Net Debt 01/01/2021			
Debentures	(200,000)		
Bank	(8,500)		
Government Securities	10,000	(198,500)	**[1]**
		(51,000)	
Net Debt 31/12/2021			
Debentures	(100,000)		
Bank	14,000		
Government Securities	35,000	(51,000)	**[1]**

(b) (i)

Financial Reporting Standard

8

A Financial Reporting Standard is a rule that must be applied to all financial statements in order to give a true and fair view of the company's financial position. It sets out best practice in accounting that allows accounts to be compared from year to year and from company to company.

(ii) Distinguish between a cash gain and a non cash gain.

A Cash gain — increases profit and cash, e.g., investment income €3,700.

A Non-cash gain — increases profits but not cash, e.g. profit on sale of fixed asset €1,000.

Question 3 Correction of Errors and Suspense Account

(a) General Journal **40**

(i) 8	**Dr**	**Cr**
	€	**€**
Purchases	360 **[2]**	
Creditors		6,420 **[3]**
Suspense	6060 **[2]**	
Being Correction of incorrect treatment of Credit Purchases. **[1]**		
(ii) 6	**€**	**€**
Drawings	750**[1]**	
Debtors		800 **[2]**
Discount Allowed	50 **[2]**	
Being omission of private debt owed by Fletcher*, offset against a business debt owed to* Fletcher. **[1]**		
(iii) 12	**€**	**€**
Debtors	1,250 **[2]**	
Suspense		1,250 **[2]**
Bank	1,000 **[2]**	
Debtors	250 **[2]**	
Bad Debt Recovered		1,250 **[3]**
Being Correction of incorrect treatment of a Bad Debt Recovered. **[1]**		
(iv) 7	**€**	**€**
Purchases Returns	240 **[1]**	
Creditors/ A. Keogh		240 **[1]**
Sales Returns	240 **[2]**	
Debtors / K. Mullen		240 **[2]**
Being Correction of Sales Returns treated as Purchases Returns. **[1]**		
(v) 7	**€**	**€**
Sales		3,630 **[1]**
Debtors	3,630 **[1]**	
Equipment		8,400 **[1]**
Provision for depreciation	5,040 **[1]**	
Cash	3,300 **[1]**	
Loss on Disposal	60 **[1]**	
Being Correction of incorrect treatment of disposal of equipment **[1]**		

(b) Statement of Corrected Net Profit

12

		€		€	
	Original Net Profit			27,900	
Add:					
(iii)	Bad Debt Recovered	1,250	**[1]**		
(v)	Sales	3,630	**[1]**	4,880	
Less:					
(i)	Purchases	360	**[2]**		
(iv)	Purchases Returns	240	**[1]**		
(ii)	Discount	50	**[2]**		
(iv)	Sales Returns	240	**[1]**		
(v)	Loss on Sale	60	**[2]**	(950)	
	Corrected Net Profit			31,830	**[2]**

8

(c) (i) What is the purpose of preparing a trial balance?

- A Trial Balance is prepared in order to test/check the accuracy of double entry bookkeeping before preparing the Income Statement, (Final Accounts) and the Statement of Financial position. (Balance Sheet).
- A Trial Balance should have the same total of debits and credits because under double entry bookkeeping every debit entry should have a corresponding credit entry.

(ii) Outline different types of errors that may affect the balancing of the trial balance

1. Entering one figure on one side of a ledger account, but entering a different figure on the other side of another ledger account
2. Entering one figure on one side of a ledger account, but entering any figure on the same side of another ledger account
3. Entering one figure on one side of a ledger account but entering nothing on the other side of another ledger account
4. Mathematical Errors/errors of calculation, addition, subtraction in totalling or closing off.

Question 4 Revaluation of Fixed Assets

52

Land and Building Account

		€				€	
01/01/2017	Balance b/d	900,000	[1]				
01/01/2017	Revaluation Reserve	180,000	[1]	31/12/2017	Balance c/d	1,080,000	
		1,080,000				1,080,000	
01/01/2018	Balance b/d	1,080.000	[1]				
	Bank	250,000	[1]				
	Bank	90,000	[1]				
	Bank	30,000	[1]	31/12/2018	Balance c/d	1,450,000	
		1,450,000				1,450,000	
01/01/2019	Balance b/d	1,450,000		01/01/2019	Disposal	210,000	[1]
				31/12/2019	Balance c/d	1,240,000	
		1,450,000				1,450,000	
01/01/2020	Balance b/d	1,240,000		31/12/2020	Balance c/d	1,426,000	
	Revaluation Reserve	186,000	[2]				
		1,426,000				1,426,000	
01/01/2021	Balance b/d	1,426,000		01/01/2021	Disposal	1,000,500	[1]
	Revaluation Reserve	49,500	[3]	31/12/2021	Balance c/d	475,000	
		1,475,500				1,475,500	

Provision for Depreciation on Building Account

01/01/2017	Revaluation Reserve	150,000	[1]	01/01/2017	Balance b/d	150,000	[2]
31/12/2017	Balance c/d	17,400		31/12/2017	Profit & Loss	17,400	[1]
		167,400				167,400	
				01/01/2018	Balance b/d	17,400	
31/12/2018	Balance c/d	42,200		31/12/2018	Profit & Loss	24,800	[1]
		42,200				42,200	
				01/01/2019	Balance b/d	42,200	
31/12/2019	Balance c/d	67,000		31/12/2019	Profit & Loss	24,800	[1]
		67,000				67,000	
01/01/2020	Revaluation reserve	67,000	[1]	01/01/2020	Balance b/d	67,000	
31/12/2020	Balance c/d	28,520		31/12/2020	Profit & Loss	28,520	[1]
		95,520				95,520	
01/01/2021	Disposal	20,010	[2]	01/01/2021	Balance b/d	28,520	
	Revaluation Reserve	8,510	[3]				
31/12/2021	Balance c/d	9,500	[1]	31/12/2021	Profit & Loss	9,500	[1]
		38,020				38,020	

Disposal of Land Account

01/01/2019	Land & Buildings	210,000	[1]	01/01/2019	Bank	235,000	[1]
31/12/2019	Profit & Loss	25,000	[1]				
		235,000				235,000	

Disposal of Buildings Account

01/01/2021	Land & Buildings	1,000,500	[1]	01/01/2021	Deprec	20,010	[1]
				01/01/2021	Bank	980,000	[1]
				01/01/2021	P & L	490	[1]
		1,000,500				1,000,500	

Repairs Account

01/01/2018	Bank	14,000	[1]	31/12/2018	Profit & Loss	14,000
		14,000				14,000

Revaluation Reserve Account

				01/01/2017	L & B	180,000	[1]
				01/01/2017	Depreciation	150,000	[1]
01/01/2019	Revenue Reserve	60,000	[1]				
				01/01/2020	Land & Buildings	186,000	[1]
				01/01/2020	Depreciation	67,000	[1]
01/01/2021	Revenue Reserve	452,700	[2]	01/01/2021	Land & Buildings	49,500	[1]
31/12/2021	Balance c/d	128,310	[1]	01/01/2021	Depreciation	8,510	[1]
		641,010				641,010	

Revenue Reserve Account

		01/01/2019	Revaluation	60,000	[1]
		01/01/2021	Revaluation	452,700	[1]
				512,700	

Balance Sheet (Extract) as at 31/12/2021

Fixed Assets			
Land and Buildings	475,000[[1]	9,500 [1]	465,500
Financed By			
Revaluation Reserve			128,310 [1]
Revenue Reserve			512,700 [1]

(B) **8**

(i) Distinguish between the straight line method and reducing balance method of depreciation.

Straight Line Method

The 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 assets such as buildings that generate profit over many years. The straight-line method involves spreading the depreciable amount evenly over the estimated useful life of the asset. Using this method, the depreciation is the same figure each year, which suggests that the asset is being used up at an even rate.

Diminishing Balance Method

The reducing balance applies a constant percentage to the gradually reducing carrying amount balance so that the amount of depreciation expense diminishes over the useful life of the asset**.** 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). It should be noted that relatively few businesses use the reducing balance method and, where it is used, the percentage figure is often an approximation.

(ii) Why would a company choose one method over another?

A method of depreciation is chosen by a company depending on the type of the asset and its policy on depreciation and ensuring that the consistency concept is applied when preparing accounts.

Q5 Interpretation of Accounts **50**

(a)

(i) Cash Purchases if the period of credit received from trade creditors is 3.6 months and 20% of total purchase are cash purchases.

Credit Purchases

$$\frac{\text{Creditors} \times 12}{\text{Credit purchases}} = 3.6 \text{ months}$$

$$\frac{21{,}000 \times 12}{3.6} = €70{,}000$$

Cash Purchases

70,000 = 80% of total purchases **[10]**

$$\frac{70{,}000}{80} \times 20 = €17{,}500$$

(ii) Price earnings Ratio

$$\frac{\text{Market Price}}{\text{Earnings Per Share}} = \frac{140c}{8.77c} = 15.96 \text{ years}$$ **[10]**

$$\text{EPS} = \frac{\text{Np – preference dividend}}{\text{Number of ordinary shares}} = \frac{41{,}000 - 9{,}000}{365{,}000} = 8.77 \text{ cent}$$

(iii) Return on Shareholder Funds

$$\frac{\text{Net profit – preference dividend}}{\text{Shareholders Funds}}$$ **[10]**

$$\frac{41{,}000 - 9{,}000}{365{,}000 + 101{,}000} \times 100 = 6.87\%$$

(iv) Dividend Cover

$$\frac{\text{Net profit – preference dividend}}{\text{Ordinary Share Dividend}} \quad \text{OR} \quad \frac{\text{EPS}}{\text{DPS}}$$ **[10]**

$$\frac{41{,}000 - 9{,}000}{9{,}000} = 3.56 \text{ times}$$ **OR** $$\frac{8.77 \text{ cent}}{2.47 \text{ cent}} = 3.55 \text{ times}$$

(v) **Gearing - Debt to Capital Employed -**

$$\frac{500,000 + 150,000 \times 100}{1,116,000} = 58.24\%$$ **[10]**

Debt to Equity -

$$\frac{500,000 + 150,000 \times 100}{466,000} = 139.48\%$$

(b)

<u>Bank Loan Application</u>

40

Profitability [7]

The return on capital employed for 2021 is 6.81**%.** In 2020 the return was 4.56%.
Profitability has improved very slightly by 2.25%.
The company is profitable/not very profitable as while the return of 6.81% is better than the return from risk free investments of 0-1% it is below the Debenture rate of 7**%** and only just above the Preference Capital rate of 6%.
The company is currently borrowing at an interest rate of 7% and using that money to make a return of less than this. Why borrow at a rate that is higher than the return on capital.
The company is not making efficient use of its resources this year**.**
The retained profit for 2021 would be insufficient to cover the annual interest charge of €40,000 on the new loan if it were to be granted.

Dividend Policy [5]
The dividend cover is 3.56 times**,** the firm is paying out 28.16% of its available profits in dividends.
Last year's dividend cover was 4.2 times meaning the firm was paying out 23.81% of available profits to shareholders. The firm is paying out a higher proportion of profits this year than was paid out last year**.**
An adequate proportion of the earnings are being retained for repayment of loan and future expansion**.** However given that the profit is low the company should consider increasing the dividend cover.

Liquidity [7]
Watson Plc does not have liquidity problems**.** The Acid Test (Quick Ratio) has improved from 2.3:1 in 2020 to 2.97:1 in 2021, well above the ideal of 1:1. They should have no problems in paying their interest and other bills as they fall due.
They have 297 cent available in Liquid Assets for every Euro they owe in the short run**.**
Watson PLC's liquidity figures are very conservative**.** Too much capital may be tied up in Debtors and is unavailable for other purposes.
The Current Ratio is also an extremely safe 3.43 to 1.

Gearing [6]

The firm is already highly geared at 58.24%/139.48**%.** Watson Plc is dependent on outside borrowing and there would appear to be a significant risk to the firm from outside investors. They are already financed more by debt than equity**.** The loan would adversely impact the gearing to 71.16%/246.78**%.** Interest cover is slightly improved from 1.9 times in 2020 to 2.17 times in 2021**.** This is concerning as it is significantly below the ideal of 3 to 1 or greater. The firm could have trouble making their interest payments on existing and any new loans. These figures should mean that the firm is unlikely to have more money available for paying dividends, reinvesting, or paying off debt.

The interest cover will get much worse if the loan of €500,000 is granted. The interest on the new loan would be €40,000.

Security [6]

Tangible Fixed assets, including Investments are valued at €737,000/€787,000/487,000/1,037,000**.** The lender should question the depreciation policy to ascertain the real value of the tangible assets**.**

The investments cost €250,000 but now have a market value of €270,000 which shows efficient use of resources on the part of Management**.**

As the existing debenture debt is €500,000**,** it would appear the firm is already barely solvent. The security for a new loan is not adequate**.**

The lender should question the nature of the Intangible Assets, they seem excessively large relative to the other assets, yet do not seem to be generating any income.

This situation will get much worse if the loan is granted.

Sector [5]

Watson plc is a manufacturer in the Confectionary sector**.**

In the short term this industry is growing as the global economy recovers post pandemic**.** However, particular consumers are looking for healthier options**,** such as low calorie, high cocoa, and functional ingredient-based confectionery. Healthier snacking, along with convenience and taste, is the rising trend among consumers, and there is a growing demand for healthy snacks.

In the long term, Watson Plc may face competition from large, established multinational competitors and will have to conduct research to assess and meet the demands of changing consumer tastes in existing and new markets. Inflation will also present challenges with regard to the prices of raw materials and the reduction in the real income of consumers.

Purpose of the loan [2]

The loan is to finance the firm's expansion into the European market**.** This expansion plan needs to be more specific as to exactly what the money will be spent on and how this will generate more profit. It is unclear if Watson's expansion could generate the level of extra income needed to service the loan**.**

Recommendation **[2]** The bank manager should **not grant** the loan based on the above figures.

- The company is not very profitable, yet it has a generous dividend policy and not enough profits are being retained in the business.
- The company is highly geared making it vulnerable to outside investors as a small change in profitability could mean it cannot make interest payments.
- The firm is barely solvent, it would be insolvent if the loan is granted.

(c)(i) The gross profit percentage is 28.21**%** a disimprovement of 7.79% from last year.

10

(ii) This could be caused by

-Reduction in selling price without a corresponding fall in cost of sales
-Cost of sales increased without the increase being passed on to the consumer
-Cash losses**.** Cash sales not recorded or theft of cash
-Stock losses –theft of stock or obsolete stock
-Change in sales mix –more low margin items being sold and less high margin items being sold
-Incorrect valuation of stock overvaluing opening stock and/or undervaluing closing stock
-Increased competition in the market reducing profit margins
- Reduction in selling price to get rid of old stock.

(iii) This could be improved by

Changing the sales mix to sell more high margin items**.**
Increasing selling price without an increase in purchase prices**.**
Reducing cost of sales by shopping around to find cheaper more competitive suppliers**.**
Avail of discounts from suppliers for bulk buying or paying more promptly**.**
Avail of cash discount rather than relying on credit.

Question 6

Balance Sheet of M. McSharry, as at 31/12/2021 **40**

		Cost		Acc Dep		NBV	
		Cost		**Acc Dep**		**NBV**	
Intangible Fixed Assets							
Goodwill						22,640	**[2]**
Tangible Fixed Assets							
Premises		980,000	**[1]**			980,000	
Motor Vehicles	W1	56,000	**[1]**	11.200	**[1]**	44,800	
Equipment	W1	285,000	**[2]**	31,875	**[2]**	253,125	
		1,321,000		43,075		1,277,925	
Financial Assets							
Investments						192,000	**[1]**
Current Assets						1,492,565	
Closing Stock	W2			84,022	**[1]**		
Bank				108,600	**[1]**		
Debtors	W13	121,500	**[1]**				
Less Bad debts provision	W14	3,645	**[2]**	117,855			
Investment Income due	W8			480	**[3]**		
Rates prepaid	W4			6,900	**[3]**		
Stock of heating oil	W5			1,100	**[1]**		
				318,957			
Creditors: amounts falling due within 1 year							
Creditors		57,800	**[1]**				
Loan payments due		14,400	**[2]**				
Loan interest due		160	**[2]**				
Wages & General Exp due	W6	4,750	**[1]**				
Light & Heat due	W5	240	**[1]**	(77,350)		241,607	
						1,734,172	
Financed By							
Creditors: amounts falling due after 1 year							
Long Term Loan						129,600**[2]**	
Capital							
Capital		1,350,000	**[1]**				
Capital introduced		290,000	**[1]**				
Less Drawings	W3	(21,540)	**[5]**	1,618,460			
Net Loss	W9			(13,888)[2]		1,604,572	
						1,734,172	

50

Trading Profit and Loss Accounts of M. McSharry, for the year ending 31/12/2021

		€	€	€
Sales	W11			938,048 **[2]**
Less Cost of Sales				
Opening stock			46,140 **[2]**	
Purchases Less Drawings	W12	747,658[**2**] (6,240)[**1**]	 741,418	
			787,558	
Less closing stock	W2		(84,022) **[4]**	(703,536)
Gross Profit	W10			234,512
Less Expenses				
Wages and General Expenses	W6	164,500 **[6]**		
Light and Heat	W5	4,140 **[6]**		
Rates	W4	28,800 **[6]**		
Bad debt provision		3,645 **[2]**		
Cleaning expenses		3,000 **[2]**		
Insurance		1,960 **[2]**		
Depreciation: Vehicles	W1	11,200 **[2]**		
Depreciation: Equipment	W1	31,875 **[2]**	249,120	(249,120)
Operating Loss				(14,608)
Investment Income	W8			2,880 **[4]**
				(11,728)
Less Loan Interest	W7			(2,160) **[4]**
Net Loss				(13,888) **[3]**

Workings:

W1	**Depreciation Equipment**			
	225,000 @ 12½% @ 12/12 months =	28,125	=	31,875
	60,000 @ 12½% @ 6/12 months =	3,750		
	Depreciation Vehicles			
	56,000 @ 20% @ 12/12 months		=	11,200
W2	**Closing Stock**	85,122	=	84,022
	Less: Heating Oil	(1,100)		
W3	**Drawings**			
	Purchases (€120 x 52)	6,240		
	Cash (€250 x 52)	13,000		
	Light & Heat	460		
	Insurance	840		= 21,540
	Cleaning expenses	1,000		
W4	**Rates**			
	Bank	27,600		
	Plus: Prepaid 01/01/2021	8,100		
	Less: Prepaid 31/12/2021	(6,900)	=	28,800
W5	**Light and Heat**			
	Bank	5,460		
	Plus: Due 31/12/2021 (Electricity)	240		
	Less: Prepaid 31/12/2021 (Oil)	(1,100)		
	Less: Drawings (10%)	(460)	=	4,140
W6	**Wages and General Expenses**			
	Bank	165,750		
	Plus: Wages due 31/12/2021	4,750		
	Less: Wages due 01/01/2021	(3,200)		
	Less: Insurance	(2,800)	=	164,500
W7	**Loan Interest**			
	Paid during the year	2,000	=	2,160
	Due 31/12/2021	160		
	144,000 @ 3% @ 6/12 months			
W8	**Investment Income**			
	Received	2,400	=	2,880
	Plus: Due 31/12/2021 (3 months)	480		
W9	**Net Loss for the year (balancing figure in the Balance Sheet)**			
	Total Net Assets	1,734,172		
	Less: Loan	(129,600)		
	Less: Capital after drawings and before profit	(1,618,460)	=	13,888

W10 G.P.				
	Net Loss	(13,888)		
	Plus: Expenses(249,120+2,160)	251,280		
	Less: Gains	(2,880)	=	234,512
W11	**Sales**			
	Gross Profit / 25 * 100		=	938,048
W12	**Purchases, (after Drawings)**			
	Cost of Sales	703,536		
	Plus: Closing Stock	84,022		
	Less: Opening Stock	(46,140)	=	741,418
W13	**Bad Debt Provision**			
	Debtors of €121,500 @ 3%	3,645		
W14	**Loan**			
	Original Loan	144,000	=	129,600
	Less 2 payments (on the 1/1 & 1/07)	(14,400)		
W15	**Cleaning**	4,000		
	Less drawings	1,000	=	3,000
W17	**Insurance**	2,800		
	Less Drawings	840	=	1,960

C Explain two fundamental accounting concepts, with reference to how they apply to the accounts of McSharry. **10**

Going Concern

It must be assumed when preparing financial statements that the business will continue to operate in its present form into the foreseeable future**.** Indications of Going Concern are that McSharry has recently purchased and invested heavily in this business in the form of new equipment of €60,000 and a new delivery van of €56,000, capital introduced of €290,000**.**

Accruals (matching)

All expenses incurred /income earned that belong to an accounting period must be recorded in that accounting period regardless of whether payment/receipts have occurred or not**.** We see in McSharry's business, account has been taken of amounts due and prepaid at both the beginning and end of the year e.g. total investment income earned of €2,880 has been included in the profit and loss account even though €480 has yet to be received by year end. Rates prepaid of €8,100 at the beginning of the year was included in the rates bill for this year even though paid in 2020 and rates prepaid at the end of the year was excluded from this year's profit and loss account even though it was paid in 2021.

Consistency

Items must be treated in the same way from one accounting period to the next

We cannot tell from just one set of accounts if this is the case. We would need for example to examine the depreciation policy of next year's accounts to examine consistency from one year to the next. Example Equipment 12.5**%,** Vans 20%.

Prudence

When preparing accounts, caution should be exercised. Possible losses must be recorded immediately but income must not be recorded until it is reasonably certain/realised(deferred revenue recognition)**.** McSharry was being prudent when a bad debt provision of €3,645 was created, which is 3% of debtors**.**

Question 7.   Abbey Hockey Club

30

Statement of Accumulated Fund on 01/01/2021

Assets				
Clubhouse	(950,000[2]- 57,000[2])	893,000	**[4]**	
Equipment	(42,000[2] – 15,750[2])	26,250	**[4]**	
5% Investments W5		25,200	**[3]**	
Investment Income due		420	**[2]**	
Bar stock		1,820	**[1]**	
Bar Debtors		560	**[1]**	
Levy due		3,000	**[2]**	
Cash in Bank		9,800	**[1]**	960,050
Liabilities				
Life Membership		48,000	**[2]**	
Levy Reserve Fund		50,000	**[2]**	
Loan due W8		258,000	**[2]**	
Loan Interest due W8		5,160	**[2]**	
Subscriptions prepaid		1,000	**[1]**	
Expenses due		440	**[1]**	
Bar Creditors		700	**[1]**	(363,300)
Accumulated Fund 01/01/2021				596,750**[1]**

W1	**Depreciation Equipment** 12,000 @ 12½% @ 12/12 months 1,500 47,000 @ 12½% @ 6/12 months 5,875 = 7,375
	Depreciation Clubhouse 950,000 @ 2% 19,000
W2	**Equipment** 42,000 - 30,000 + 47,000 59,000
W3	**Loss on Disposal of equipment** 30,000 – 11,250 - 7,000 11,750
W4	**Accumulated Depreciation 31/12** 15,750 – 11,250 + 7,375 11,875
W5	**Investment** (1,050 – 420) * 2 = 1,260 = 5% 5% Investment 1,260 /5 × 100 = 25,200 **Investment income due 31/12/2021** = 630
W6	**Subscriptions** 425,500 + 1,000 - 3,160 – 3,000 - 65,000 = 355,340
W7	**Catering** 122,500 –(93,100 – 11,460) = 40,860
W8	**Loan and Loan interest** 8% * 9/12 =6% 106% = 273,480 100% = <u>258,000</u> Interest = 15,480 = 9 months Due 01/01 (3 months) €5,160, P & L (6 months) €10,320
W9	**Bar Trading Account** Bar Receipts 73,600 –560 + 780 73,820 Less cost of sales Opening stock 1,820 Purchases 43,800 -700 +1,100 44,200 Less closing stock <u>(10,240)</u> <u>(35,780)</u> Bar Profit 38,040
W10	**Coaching expenses and wages** 15,540 -440 +750 15,850
W11	**Life Membership W/O** (60,000 – 12,000) 48,000/8 6,000

Income and Expenditure Account for the year ended 31/12/2021 **35**

(b)

	Income				
	Catering Profit **W7**	40,860	**[3]**		
	Bar Profit **W9**	38,040	**[6]**		
	Subscriptions **W6**	355,340	**[6]**		
	Life Memberships written off **W11**	6,000	**[2]**		
	Hockey Ireland Grant	13,500	**[1]**		
	Investment Income **W5**	1,260	**[3]**		
	Competition profit	3,500	**[1]**	458,500	

Less Expenses

	Loan Interest **W8**	10,320	**[3]**		
	Coaching **W10**	15,850	**[2]**		
	Sundry Expenses	64,360	**[1]**		
	Loss on sale of equipment **W3**	11,750	**[3]**		
	Depreciation equipment **W1**	7,375	**[1]**		
	Depreciation clubhouse **W1**	19,000	**[1]**	(128,655)	
	Excess of Income over Expenditure			329,845	**[2]**

Balance Sheet as at 31/12/2021				**25**
Fixed Assets				
Clubhouse	950,000**[1]**	76,000**[2]**	874,000	
Equipment W2 W4	59,000**[2]**	11,875**[3]**	47,125	
	1,009,000	87,875	921,125	
Financial Assets				
Investments W5			25,200	**[2]**
			946,325	
Current Assets				
Closing stock - Bar	10,240	**[1]**		
Closing Stock – Catering	11,460	**[1]**		
Bank	239,170	**[1]**		
Debtors	780	**[1]**		
Investment income due	630	**[1]** 262,280		
Creditors: amounts falling due within 1 year				
Bar Creditors	1,100	**[1]**		
Coaching wages due	750	**[1]**		
Subscriptions prepaid	3,160	**[1]** (5,010)	257,270	
			1,203,595	
Financed By				
Creditors: amounts falling due after 1 year				
Life Membership			42,000	**[2]**
Capital and Reserves				
Accumulated Fund/Capital		596,750	**[1]**	
Levy		115,000	**[2]**	
Lotto Grant		120,000	**[1]**	
Surplus of Income over Expenditure		329,845	**[1]** 1,161,595	
			1,203,595	

(d) (i) Special Purposes Profit and Loss Account

10

Many not-for-profit organisations run activities to raise funds for the organisation**.** These activities are intended to generate profits to invest in the organisation.

The 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**.**

Examples Running a bar, a restaurant, a lotto, a dance**.**

(ii)

Proposal to reduce subscriptions by 10% for the next three years -

The proposal to reduce subscriptions by 10% will reduce income by €35,534 per year based on current subscriptions.

Points in favour

The club is in a healthy financial position with a bank balance of €239,170 which is considerably higher than the bank balance at the beginning of the year €9,800. Excluding the once off grant of €120,000 this is still very healthy.

They have investments of €25,200

They have paid back a loan with interest of €273,480 in total.

The club has current surplus income of €329,845 which will reduce to €294,291 with the reduction of €35,534 in subscriptions which is a very healthy surplus.

This may bring in extra members which may counteract the reduction in the subs rate and result in revenue remaining the same**.**

The club has net expenditure on fixed assets of €40,000 which it may not have in the coming years**.**

The club well able to financially sustain a reduction in the subscription fee of 10%**.**

Question 8

33

(a)

Overhead	**Basis**	**Total**	**Product.1**	**Product. 2**	**Service A**	**Service B**
Indirect Materials	Actual	420,000	200,000	120,000	50,000	50,000
Indirect Labour	Actual	625,000	300,000	250,000	45,000	30,000
Factory Canteen	Employees [1]	50,000	25,000 [2]	17,500 [2]	6,250 [2]	1,250[2]
Rent and Rates	Floor Space [1]	64,000	32,000 [1]	25,600 [1]	3,200 [1]	3,200[1]
Light and Heat	Volume [1]	75,000	37,500 [1]	25,000 [1]	9,375 [1]	3,125[1]
Machine Maintenance	Machine Hours [1]	28,000	16,000 [2]	12,000 [2]	----	
Plant Depreciation	Plant Valuation [1]	81,000	33,750 [1]	27,000 [1]	10,125 [1]	10,125[1]
		1,343,000	644,250 [1]	477,100 [1]	123,950 [1]	97,700[1]

(b) **8**

		Production 1	**Production 2**	**Service A**	**Service B**
Overhead Costs		644,250	477,100	123,950	97,700
Apportion Service A	[60%/40%]	74,370[2]	49,580[2]	(123,950)	
Apportion Service B	[35%/65%]	34,195 [2]	63,505 [2]		(97,700)
		752,815	590,185		

6

(c)

Overhead recovery (absorption) per	**Machine Hours**	**Direct Labour Hours**
	Processing	**Assembly**
	(Machine Hours)	(Labour Hours)
Budgeted Overheads	752,815	590,185
Budgeted Hours	48,000	74,000

Overhead absorption rate per machine hour

€15.68 [3]

Overhead absorption rate per labour hour

€7.98 [3]

(d)

23

Selling Price of Job No 310

Materials		12,000 + 2,600	14,600.00	**[3]**
Labour		2,600 + 7,000	9,600.00	**[3]**
Overheads:				
Production 1	55 mh x €15.68		862.40	**[4]**
Production 2	80 lh x €7.98		638.40	**[4]**
Production Cost		75%	25,700.80	**[2]**
Profit		25%	8,566.93	**[2]**
Selling Price		100%	34,267.73	**[5]**

(e)

10

(i) **Explain why overhead absorption rates are based on budgeted costs rather than actual costs**

Overhead absorption rates are based on budgeted costs rather than actual costs because;

The product needs to be costed at the time of order but actual costs may often not be known until the end of the year**.** A business cannot wait till then to set the selling price of a product for a customer**.**

(ii) **Explain, 'under-absorption' of overheads and how it might arise in a manufacturing firm.**

-Under-absorption is when costs are under-recovered. Budgeted costs are less than actual costs**. This may be due to -**

1- Actual labour hours used in the manufacturing process could be higher than budgeted for.

2-There could have been errors in estimating overheads.

3-Overhead Expenses are higher due to unforeseen events e.g. oil prices higher on world markets or depreciation of assets higher than estimated.

4-There could have been unexpected changes in method of production causing higher than expected prices e.g. more fuel required to power machines.

5- Cleaning costs have increased due to the wages of the staff increasing because of inflation.

6- Light and heat costs have increased due to oil and gas prices rising.

7 - Insurance cost have increased due to higher premiums as a result of higher risks.

8- Transport costs have increased due to diesel prices increasing.

9- Depreciation expenses have increased due to higher expenditure on fixed assets.

Question 9. Budgeting **18**

(a) Production Budget

	Golden		Portland	
Budgeted Sales (in units)	15,200	[5]	8,400	[5]
Add Closing Stock	810	[2]	675	[2]
Less Opening Stock	(900)	[2]	(750)	[2]
= Budgeted Production in Units	15,110		8,325	

16

(b) Raw Materials Purchases Budget

Required for Production	**Material A**			**Material B**	
- Golden(15,110 units @ 6 kg)	90,660	[2]	(15,110 units @ 9 kg)	135,990	[2]
- Portland(8,325 units @ 8 kg)	66,600	[2]	(8,325 units @ 12 kg[)	99,900	[2]
	157,260			235,890	
Add Closing Stock	8,460	[1]		6,120	[1]
	165,720			242,010	
Less Opening Stock	(9,400)	[2]		(6,800)	[2]
Forecast Purchases of Raw Materials, in Kg	156,320			235,210	
Times Purchase Price	€5.50	[1]		€7.00	[1]
Forecast Purchases of Raw Materials, in €	€859,760			€1,646,470	
				€2,506,230	

16

(c) Production Cost/Manufacturing Budget

Direct Materials					
Opening Stock -	Material A	(9,400kg x €5.00)	47,000	[1]	
Raw materials	Material B	(6,800kg x €6.50)	44,200	[1]	91,200
Purchases -	Material A		859,760	[1]	
Raw materials	Material B		1,646,470	[1]	2,506,230
Closing Stock -	Material A	(8,460kg x €5.50)	46,530	[1]	
Raw materials	Material B	(6,120kg x €7.00)	42,840	[1]	(89,370)
					2,508,060
Cost of Labour	Golden	(15,110 x 6 hours x €18.00)	1,631,880	[2]	
	Portland	(8,325 x 9 hours x €18.00)	1,348,650	[2]	2,980,530
Variable Overheads	Golden	(15,110 x6 hours x €12.00)	1,087,920	[2]	
	Portland	(8,325 x 9 hours x €12.00)	899,100	[2]	1,987,020
Fixed Overheads				[1]	579,550
Cost of Manufacture				[1]	8,055,160

20

(d) Unit cost of budgeted Closing Stock

		Golden			**Portland**	
		€			**€**	
Material A	(6 Kgs x €5.50)	33.00	[1]	(8 Kgs x €5.50)	44.00	[1]
Material B	(9 Kgs x €7.00)	63.00	[1]	(12 Kgs x €7.00)	84.00	[1]
Direct Labour	(6 hours x €18.00)	108.00	[1]	(9 hours x €18.00)	162.00	[1]
Variable Overheads	(6 hours x €12.00)	72.00	[1]	(9 hours x €12.00)	108.00	[1]
Fixed Overheads	(6 hours x €3.50)	21.00	[1]	(9 hours x €3.50)	31.50	[1]
Cost per Unit		297			429.50	

Fixed Overheads per Direct Labour Hour

$$= \frac{€579,550}{(15,110\text{x}6 \text{ hrs}) + (8,325 \text{ unitsx}9 \text{ hrs})}$$

$$= \frac{€579,550}{165,585 \text{ hrs}}$$

$$= €3.50 \ \textbf{[1]}$$

Budgeted Trading account for year ended 31/12/2023

Sales	(15,200 * €360) + (8,400 * €410)		8,916,000**[2]**
Less cost of sales			
Opening stock	(900 * €210) + (750 * €290)	406,,500**[2]**	
Cost of manufacture		8,055,160**[1]**	
Less closing stock	(810 * €297) + (675 * €429.50)	(530,482.50) **[2]**	7,931,177.50
Gross Profit			984,822.50**[2]**

(e)

10

(i) Outline why budget control is necessary in an organisation.

Budgetary control is necessary to

1 Draw up a plan of performance – budgets are a roadmap for the business.

2 Identify areas of responsibility to provide direction and motivation to staff to achieve targets.

3 To identify future costs and revenues in order to plan cash inflows and outflows and control costs.

4 Plan raw material requirements to ensure production levels can be achieved.

5 Plan labour requirements to ensure adequate staffing levels in all areas.

6 To ensure resources are used efficiently and to be capable of adapting to changing circumstances.

7 To compare budgeted figures with actual figures and to identify variances.

(ii) Explain what is meant by a favourable variance

A favourable variance occurs when actual costs are less than budgeted costs**.**

Explain how it might arise in a manufacturing firm
A favourable variance might arise if

-The purchase price of raw materials is less than expected because of economies of scale or lower import charges/Discount on early payments.

-Less labour hours(lower wage costs) were required due to improved productivity from employees.

- Hire costs of special equipment is less than expected due to a surplus of equipment on the on the rental market.

- Patent royalty costs are less than anticipated due to the patents coming close to their retirement date.

Annotation	Use
✓n	Correct element (n marks)
0	No marks awarded. Answer incorrect or insufficient
N	Refer to notes/workings
	Page seen by examiner / Information not valid
[	Surplus answer or part of answer. Marks awarded elsewhere.
P-	Minus one mark – Penalty, Incorrect Calculation, Misplaced Figure, Non Transfer.
✓½	Total transposition.
	Underline