Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2010

MARKING SCHEME

ACCOUNTING

HIGHER LEVEL

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Higher Level Marking Scheme

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 alongside. **[6]**

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 (e.g. 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

Question 1

(a) 75

Trading and Profit and Loss Account for the Year ended 31/12/2009 [1]

		€		€		€		€	
Sales								659,650	[3]
Less Cost of Sales									
Stock 1/1/2009						63,200	[3]		
Add Purchases	**W1**					429,900	[6]		
						493,100			
Less Stock 31/12/2009	**W2**					(70,600)	[5]	(422,500)	
Gross Profit								237,150	
Less Expenses:									
Administration									
Salaries and General expenses	**W3**	73,900	[7]						
Rent		8,000	[3]						
Patents written off	**W4**	12,320	[5]						
Depreciation – Buildings		18,600	[3]	112,820					
Selling and Distribution									
Commission		5,550	[3]						
Discount		1,600	[3]						
Advertising	**W5**	300	[5]						
Loss on sale of van	**W6**	4,500	[6]						
Depreciation on vans	**W7**	13,500	[5]	25,450				(138,270)	
								98,880	
Add Operating Income									
Bad debt recovered								900	[2]
Operating Profit								99,780	
Investment Interest	**W8**							2,400	[4]
								102,180	
Less Mortgage Interest	**W9**							(8,640)	[5]
Net Profit for the Year								**93,540**	[6]

Penalties: Deduction of 2 x 1 mark for the omission of 2 expense headings in the Profit & Loss account

(b)

45

Balance Sheet as at 31/12/2009

		Cost	**Accumulated Depreciation**	**Net**	**Total**
		€	**€**	**€**	**€**
Intangible Fixed Assets					
Patents					49,280 [4]
Tangible fixed Assets					
Buildings		850,000 [1]		850,000	
Delivery Vans	**W10 W11**	114,000 [2]	16,000 [3]	98,000	
		964,000	16,000	948,000	948,000
Financial Assets					
4% Investments					120,000 [2]
					1,117,280
Current Assets					
Stock			70,600 [2]		
Debtors	**W12**	50,500			
Less Provision for bad debts		(1,800)	48,700 [3]		
Investment Interest due			1,200 [2]		
Advertising prepaid			2,100 [2]	122,600	
Creditors: Amounts falling due within one year:					
Creditors	**W13**		120,700 [4]		
Mortgage interest due			8,100 [2]		
PAYE & PRSI	**W14**		4,400 [3]		
VAT			4,600 [2]		
Bank overdraft	**W15**		12,900 [3]	(150,700)	(28,100)
					1,089,180
Financed by					
Creditors: Amounts falling due after more than one year: [1]					
6% Fixed Mortgage					180,000 [2]
Capital and Reserves					
Capital				495,000 [1]	
Add Revaluation Reserve	**W16**			353,600 [3]	
Add Net Profit				93,540	
				941,940	
Less Drawings	**W17**			(32,960) [3]	908,980
					1,089,180

Question 1. Workings

1.	Purchases	465,200	–	36,000	+	700	=	429,900
2.	Closing Stock	75,400	–	4,800			=	70,600
3.	Salaries & general expenses	75,000	–	1,000	–	100	=	73,900
4.	Patents	60,400	+	1,200	÷ 5		=	12,320
5.	Advertising	2,400	–	2,100			=	300
6.	Loss on sale of van	24,000	–	12,000	–	7,500	=	4,500
7.	Depreciation – Delivery Vans	8,250	+	750	+	4,500	=	13,500
		11,250	+	2,250				
		2,812.50	+	10,687.50				
8.	Investment Interest	1,200	+	1,200			=	2,400
9.	Mortgage Interest	6,000	+	3,600	–	960	=	8,640
10.	Delivery Vans	90,000	–	24,000	+	48,000	=	114,000
11.	Accumulated Dep. Vans	10,000	+	13,500	–	7,500	=	16,000
12.	Debtors	50,000	+	500			=	50,500
13.	Creditors	120,000	+	700			=	120,700
14.	PAYE & PRSI	5,400	–	1,000			=	4,400
15.	Bank overdraft	13,300	–	400			=	12,900
16.	Revaluation reserve	230,000	+	123,600			=	353,600
	Depreciation buildings	105,000	+	18,600			=	123,600
17.	Drawings	32,000	+	960			=	32,960

Question 2

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(a)

Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating Profit	179,000	[2]
Depreciation charge for the year	65,000	[3]
Loss on sale of machinery	10,000	[5]
Increase in Stock	(18,000)	[2]
Increase in Debtors	(8,000)	[2]
Increase in Creditors	25,000	[2]
Net Cash inflow from operating activities	253,000	[2]

Cash flow Statement of Norris Plc for the year ended 31/12/2009

Operating activities		**€**		**€**	
Net Cash Inflow from operating activities				253,000	[1]
Return on investments and servicing of finance	[1]				
Interest paid				(13,000)	[3]
Taxation	[1]				
Corporation Tax paid				(38,000)	[3]
Capital expenditure and financial investment	[1]				
Investments		(35,000)	[2]		
Payment to acquire tangible fixed assets		(75,000)	[2]		
Receipts from sale of fixed assets		30,000	[2]	(80,000)	
Equity dividends paid	[1]				
Dividends paid during the year				(64,000)	[2]
Net Cash inflow before Liquid Resources and Financing				58,000	
Management of liquid resources	[1]				
Purchase of Government Securities				(15,000)	[1]
Financing					
Repayment of Debentures		(80,000)	[1]		
Receipt from Issue of Shares		20,000	[1]		
Receipt from Share Premium		3,000	[1]	(57,000)	
Decrease in cash				(14,000)	[2]

Reconciliation of net cash flow to movement in net debt

Decrease in Cash during the period	(14,000)	[1]
Cash used to purchase liquid resources	15,000	[1]
Cash used to repurchase of debenture loan	80,000	
Change in Net Debt	81,000	
Net Debt 1/1/2009	(212,000)	[1]
Net Debt 31/12/2009	(131,000)	[1]

Question 2 – continued.

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(b) [6]
It shows the cash inflows and outflows during the past year
It shows that profits do not always equal cash
It aids financial planning/ it is used to predict future cash flows
It provides information to assess current liquidity

[6]
Cash expense – reduces both profit and cash e.g. wages
Non-cash expense – reduces profit but not cash e.g. depreciation**,** provision for bad debts

Workings

Depreciation		
Depreciation on Machinery	55,000	
Depreciation on Buildings	<u>10,000</u>	
Depreciation for the year		65,000

Loss on disposal of fixed assets		
Cost of machine disposed	70,000	
Depreciation on disposed machine	<u>30,000</u>	
Book value	40,000	
Less depreciation on disposal	<u>30,000</u>	
Loss on disposal		10,000

Taxation		
Taxation due 31/12/2008	40,000	
Taxation for year 2009	<u>43,000</u>	
	83,000	
Less taxation due 31/12/2009	<u>(45,000)</u>	38,000

Interest		
Interest for year 2009	18,000	
Less interest due 31/12/2009	<u>(5,000)</u>	13,000

Question 3

(a) 6

Vehicles Account

1/1/2008	Balance b/d (W1)	166,000	[1]	01/08/2008	Disposal	56,000	[1]
1/8/2008	Bank & trade-in No 4	66,000	[1]	31/12/2008	Balance c/d	176,000	
		232,000				232,000	
1/1/2009	Balance b/d	176,000		01/05/2009	Disposal	60,000	[1]
1/5/2009	Bank No 5	72,000	[1]	31/12/2009	Balance c/d	188,000	[1]
		248,000				248,000	

(b) 32

Provision for Depreciation Account

[1]							
01/08/2008	Disposal (W3)	33,047	[2]	01/01/2008	Balance b/d (W2)	76,016	[6]
31/12/2008	Balance c/d	64,300		31/12/2008	Profit & Loss (W4)	21,331	[8]
[1]		97,347				97,347	
01/05/2009	Disposal (W5)	31,328	[2]	01/01/2009	Balance b/d	64,300	
31/12/2009	Balance c/d	60,816	[4]	31/12/2009	Profit & Loss (W6)	27,844	[8]
		92,144				92,144	
				01/01/2010	Balance b/d	60,816	

(c) 14

Disposal of Vehicles Account

01/08/2008	Vehicle No 1	56,000	[1]	01/08/2008	Trade In	12,000	[2]
					Provision for Depreciation	33,047	[2]
				31/12/2008	Profit & Loss	10,953	[1]
		56,000				56,000	
01/05/2009	Vehicle No 3	60,000	[1]	01/05/2009	Compensation	20,000	[2]
31/12/2009	Profit & Loss	2,328	[1]		Trade In	11,000	[2]
					Provision for Depreciation	31,328	[2]
		62,328				62,328	

(d) 8

(i) Depreciation is the measure of the wearing away or loss in value of a fixed asset as a result of wear and tear, passage of time, obsolescence or extraction [4]

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

Number	Cost	Dep to 1/1/2008	B.V. on 1/1/2008	Dep for 2008	BV. on 1/1/2009	Dep for 2009	Total Dep	
1 Unit	40,000 16,000	23,616 6,400	16,384 9,600	1,911 1,120	- -		25,527 7,520	33,047 **W 3**
2	50,000	24,400	25,600	5,120	20,480	4,096		
3	60,000	21,600	38,400	7,680	30,720	2,048		31,328 **W 5**
4	66,000	-	-	5,500	60,500	12,100		
5	72,000					9,600		
		76,016 **(W2)**		21,331 **(W4)**		27,844 **(W6)**		

(W1) 1/1/2008 Cost Balance 40,000 + 16,000 + 50,000 + 60,000 = **166,000**

Question 4

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Adjusted Creditors Control Account

	€			€	
Balance b/d	650 [2]		Balance b/d	54,225	[2]
Credit Note (i)	215 [4]		Interest (iii)	55	[5]
Balance c/d	54,253		Discount disallowed (iv)	104	[5]
			Restocking charge (vi)	84	[5]
			Balance c/d	650	[1]
	55,118			55,118	
Balance b/d	650		Balance b/d	54,253	

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Schedule of Creditors Accounts Balances

			€	€
Balance as per list of Creditors				52,297 [4]
Add	Invoice	(ii)	1,350 [3]	
	Interest	(iii)	90 [4]	
	Discount disallowed	(iv)	104 [4]	
	Cash Purchases	(v)	900 [4]	2,444
				54,741
Deduct	Credit Note adjustment	(i)	466 [4]	
	Credit Note	(vi)	672 [4]	(1,138)
Net Balance as per adjusted Control Account				53,603 [1]

(c)

8

Errors in either the control account or in the schedule but not in the other [4]
Failure to complete the double entry/ Errors in the ledgers [4]
Incorrect totalling of subsidiary books sent to control account

Question 5

45

(a)

(i) Interest Cover

Net Profit before interest / Interest	65,000 + 30,000 / 30,000	=	**3.17 times**	[8]

(ii) Cash Purchases

Creditors / Credit Purchases x 12 = 2   77,000 x 12 / 2 = 462,000

(opening stock + purchases – closing stock = cost of sales)
(Purchases = 725,000 – 60,000 + 65,000 = 730,000)

Cash Purchases   730,000 – 462,000 = **268,000** [10]

(iii) Dividend Cover

Net Profit after Preference Dividend / Ordinary Dividend	65,000 – 5,000 / 45,000	=	**1.33 times**	[8]

(iv) Market Price

Market Price / EPS = 10   Market Price / 15 = 10   = **150 cent** [9]

(v) Dividend Yield

Dividend per share x 100 / Market Price	11.25 x 100 / 150	=	**7.5%**	[10]

Question 5 (b)

40

The debenture holders would be **concerned** with the following:

Dividend Policy [7]

The dividend cover is 1.33 times. Last year's dividend cover was 1.4 times. This is a worsening trend. The DPS last year was 15c while this year it is 11.25c. Based on this year's profit of €65,000, the dividends proposed of €50,000 are excessive. More of the profits should be retained for the repayment of debentures. The % of profits given out is 75%. In 2008, the % given out was 71%.

Security - Real Value of the Assets [7]

The debentures are secured on the fixed assets. The debenture holders would be interested in the size of the assets to make sure that there is enough security for the loan. There are fixed assets of €820,000 of which, intangible assets are €180,000 leaving net assets excluding intangibles of €640,000. It would be prudent to ascertain the real value of fixed assets as there are no write-offs like depreciation. However, the debenture holders would feel secure because of the excess in value of fixed assets over the loan of €300,000. There are investments of €95,000 but the debenture holders would be disappointed at the fact that the investments have dropped from their value of €120,000.

Profitability [7]

The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend. If this downward trend continues, there is a risk of having to sell the fixed assets in order to repay debentures. The company is in a profitable position as the return of 11.80% is better than the return from risk free investments of less than 5% and is above the debenture interest rate of 8%. The company is making less efficient use of resources this year.

Liquidity [7]

The company has a very serious liquidity problem. Last year the quick ratio was 1:1 but this year the quick ratio has fallen to 0.36:1. The company now has only 36c available to pay every €1 owed in the short term. The worsening of the ratio indicates a difficulty in paying debts including future interest. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan.

Gearing [7]

The company is lowly geared. In 2009, the gearing was at 43.48%. The gearing has worsened from 37% of total capital in 2008. Interest cover was 4.7 times but is now down to 3.2 times. This worsening trend could make interest payments more difficult.

Sector [5]

The overall worsening state of the economy is having a very negative effect on the dairy industry and there are also risks of over production and low cost competition.
The long term prospects are not encouraging in the dairy industry due to outside influences.

Question 5 (c)

15

I would advise my friend **not** to buy shares in Hebe plc for the following reasons: [3]

Share Price [4]
The share value has fallen from €1.80 to €1.50 [30c] since 2009 and is likely to continue in its downward movement based on current year performance. There is a lack of stock market confidence and may discourage investment.

Dividends [4]
Dividend per share is 11.25c. The dividend per share has dropped from 15c
The dividend yield has dropped from 8.3% to 7.5%. Whilst the rate is good the trend is not.

Reserves [2]
The dividend cover is low and dropping. The firm is not retaining enough profits to build up reserves. The company's dividend cover has dropped from 1.4 times to 1.33 times.

Sector [2]
Dairy industry is not performing well and future is unsure.

Liquidity
Company has a serious liquidity problem. The company now has only 36c available to pay every €1 owed in the short term.

Profitability
Profitability is worsening. The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend.

Price Earnings Ratio
Ratio is ten. It would take 10 years to earn back current price at current earnings.

Question 6

18

(a)

Statement of Capital and Reserves on 1/1/2009

		€		€	
Assets					
Buildings and grounds	(550,000 – 33,000)	517,000	[2]		
Equipment	(45,000 – 20,250)	24,750	[2]		
Mini Bus	(50,000 – 30,000)	20,000	[2]		
5% Investments		30,000	[1]		
Stock in shop		3,300	[1]		
Stock of oil		1,600	[1]		
Contract cleaning prepaid		200	[1]		
Cash at bank		8,250	[1]	605,100	
Liabilities					
Creditors for supplies		1,000	[1]		
Clients' fees paid in advance		4,000	[1]		
Loan		40,000	[1]		
Interest on loan (14 months @ 450 per month)		6,300	[2]		
Issued Capital		320,000	[1]	(371,300)	
Reserves				**233,800**	[1]

(b)

10

Shop Profit and Loss Account for the year ended 31/12/2009

Shop receipts			40,000	[1]
Less expenses				
Cost of goods sold (3,300 + 28,000 – 1,500)	29,800	[5]		
Light and heat	250	[1]		
Insurance	800	[1]		
Telephone	350	[1]		
Wages and salaries (40% x 18,000)	7,200	[1]	(38,400)	
Profit from shop			**1,600**	

(c)

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Profit and Loss Account for year ended 31/12/2009

		€		€	
Income					
Interest received		1,500	[1]		
Profit from shop		1,600	[1]		
Clients' fees		339,500	[5]	342,600	
Less Expenses					
Wages and salaries	(85,500 – 7,200)	78,300	[2]		
Insurance	(6,400 – 800)	5,600	[2]		
Light and heat		4,470	[5]		
Purchases – supplies		36,700	[3]		
Loan interest		1,800	[1]		
Laundry		2,000	[1]		
Telephone (1,600 – 350)		1,250	[2]		
Bad debt		600	[1]		
Depreciation – Buildings		15,000	[1]		
Equipment		9,000	[1]		
Mini Bus		9,200	[1]		
Loss on sale of Bus		8,000	[1]		
Contract cleaning		3,300	[3]	(175,220)	
Net Profit for year				167,380	[4]
Add Reserves 1/1/2009				233,800	[1]
Profit and Loss balance 31/12/2009				**401,180**	

Workings

Clients' fees

Amount received		340,000	
Fees due 31/12/2009	(500 + 600 – 600)	500	
Advance deposits 1/1/2009		4,000	
Less fees prepaid 31/12/2009		(5,000)	339,500
Light and heat			
Amount paid		3,100	
Stock oil 1/1/2009		1,600	
Electricity due 31/12/2009		320	
Stock oil 31/12/2009		(300)	
Charge to shop		(250)	4,470
Purchases	35,900 + 1,800 – 1,000		36,700
Contract cleaning	3,500 + 200 – 400		3,300

(d)

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Balance sheet as at 31/12/2009

	Cost	Depreciation	Net
Fixed Assets	€	€	€
Buildings and grounds	900,000 [1]	-	900,000
Equipment (45,000 + 15,000)	60,000 [2]	29,250 [2]	30,750
Mini Bus	42,000 [1]	4,200 [2]	37,800
	1,002,000	33,450	968,550
Investments			30,000 [2]
			998,550
Current Assets			
Investment income due	500 [2]		
Closing stock – shop	1,500 [1]		
– oil	300 [1]		
Cleaning prepaid	400 [2]		
Clients' fees due	500 [2]	3,200	
Less Creditors: amounts falling due within 1 year			
Electricity due	320 [2]		
Client's advance deposits	5,000 [2]		
Bank	75,450 [2]		
Creditors for supplies	1,800 [2]	(82,570)	(79,370)
			919,180

Financed by

Share Capital and Reserves	**Authorised**	**Issued**	
Ordinary Shares	450,000 [1]	320,000 [1]	
Revaluation Reserve		198,000 [2]	
Profit and Loss balance		401,180	919,180
			919,180

(e)

6

A 10% increase in clients' fees would increase income by €33,950.

There is no need to increase fees for viability or profitability purposes.
The company is profitable as its return on capital employed is 18.4% particularly in the current climate.
The company is generating ample cash. It has repaid a loan of €40,000, purchased equipment €15,000, contributed €35,000 towards a new mini bus and has financed about 58% of a €200,000 extension from cash receipts.
In the current climate costs are dropping, there is increased competition and consequently charges should **not** be increasing.

Question 7

(a)

50

		Dr €	Cr €
(i)	Bank	620 [2]	
	Discount	40 [2]	
	Creditor		660 [2]
	Creditors	300 [2]	
	Cash		300 [2]
	Being recording of dishonoured cheque issued by McCarthy and payment on account of €300 in cash [1]		
(ii)	Purchases returns	1,500 [3]	
	Creditors	13,500 [3]	
	Suspense		15,000 [3]
	Being recording of return of motor vehicle and credit note, incorporating a restocking charge. [1]		
(iii)	Suspense	22,500 [3]	
	Bank		22,500 [3]
	Purchases	7,500 [2]	
	Capital		7,500 [2]
	Being Capital introduced in the form of a motor van and the cancellation of an incorrect entry in the bank account [1]		
(iv)	Creditors	450 [2]	
	Motor Vehicles	450 [2]	
	Suspense		900 [2]
	Repairs	450 [2]	
	Bank/cash		450 [2]
	Being cash payments for repairs credited in error to creditors and motor vehicles account. [1]		
(v)	Rent –Profit & Loss	4,200 [2]	
	Rent Account –Balance Sheet	1,050 [2]	
	Capital		5,250 [2]
	Being private funds used to pay twelve months rent for the current year and three months rent prepaid. [1]		

(b)

6

Suspense Account

		Original difference	6,600
Bank (iii)	22,500 [2]	Creditors (ii)	15,000 [2]
		Creditors (iv)	900 [2]
	22,500		22,500

(c)

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Statement of Corrected Net Profit

			€	€
Original Net Profit as per books				81,200 [2]
Less	Discount	(i)	40 [2]	
	Purchases Returns	(ii)	1500 [2]	
	Purchases	(iii)	7,500 [2]	
	Repairs	(iv)	450 [2]	
	Rent - P&L	(v)	4,200 [2]	(13,690)
Correct Net Profit				67,510 [2]

(d)

20

Balance Sheet as at 31/12/2009

	€	€	€
Fixed Assets			
Premises		600,000 [1]	
Motor vehicles (60,000 + 450)		60,450 [2]	
Equipment		30,000 [1]	690,450
Current Assets			
Stock (182,400 + 6,600)	189,000 [2]		
Debtors	38,200 [1]		
Cash (1,000 – 300 – 450)	250 [2]		
Rent	1,050 [1]	228,500	
Less Creditors: amounts falling due within 1 year			
Creditors (56,000 + 360 – 13,500 – 450)	42,410 [3]		
Bank (31,000 – 620 + 22,500)	52,880 [2]	(95,290)	133,210
			823,660 [1]
Financed by			
Capital (750,000 + 7,500 + 5,250)		762,750 [2]	
Corrected Net Profit		67,510	
		830,260	
Less Drawings		6,600 [1]	823,660
			823,660 [1]

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(e)

Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account. [4]
Mathematical errors - figures and additions [3]
Posting only one side of the double entry [3]

Question 8

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(a)

Stock Valuation

Purchases in units	Unit cost €	Purchases at cost
3,000	@ €4	12,000
2,200	@ €6	13,200
1,500	@ €7	10,500
6,700		**35,700**

Credit Sales Units	Credit Sales €	Cash Sales Units	Cash Sales €	Total Sales Units	Total sales €
900 @ €9	8,100	1,200 @ €11	13,200	2,100	21,300
1,100 @ €10	11,000	1,300 @ €12	15,600	2,400	26,600
1,200 @ €10	12,000	1,200 @ €13	15,600	2,400	27,600
3,200	**31,100**	**3,700**	**44,400**	**6,900**	**75,500**

Closing Stock in Units Opening Stock 4,000 + Purchases 6,700 – Sales 6,900 = **3,800 units** [6]

Closing Stock in €	1,500 @ €7	=	10,500	[2]
	2,200 @ €6	=	13,200	[2]
	100 @ €4	=	400	[2]
	3,800		24,100	[4]

Trading account for the year ending 31/12/2009

Sales		75,500 [3]
Less cost of Sales		
Opening Stock	16,000 [2]	
Purchases	35,700 [3]	
	51,700	
Closing Stock	(24,100) [2]	(27,600)
Gross Profit		47,900 [4]

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(b)

Calculation of Product Cost and Selling Price

	€	€
Direct materials		7,350.00 [2]
Direct wages		
Dept A (95 x 13)	1,235 [3]	
Dept B (185 x 15)	2,775 [3]	
Dept C (60 x 10)	600 [3]	4,610.00
Variable overheads		
Dept A (95 x 15)	1,425 [2]	
Dept B (185 x 17)	3,145 [2]	
Dept C (60 x 22)	1,320 [2]	5,890.00
Fixed overheads		
Dept A (95 x 6)	570 [2]	
Dept B (185 x 5)	925 [2]	
Dept C (60 x 4)	240 [2]	1,735.00
General Administration overhead (340 x 5.50)		1,870.00 [4]
Total Cost (80% of selling price)		21,455.00 [3]
Profit (20% of selling price)		5,363.75
Selling Price 100%		26,818.75 [3]

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(c)

Under and over absorption of costs

Dept X	**Dept Y**	**Dept Z**
$\frac{140,000}{35,000}$	$\frac{36,000}{45,000}$	$\frac{40,000}{20,000}$
= €4 per M.H [3]	= €0.80 per L.H [3]	= €2 per L.H. [3]

	Dept X	**Dept Y**	**Dept Z**	**Total**
Actual overhead incurred	155,000 [1]	30,000 [1]	45,000 [1]	230,000
Absorbed overhead	160,000 [1]	29,600 [1]	50,000 [1]	239,600
Over/Under absorption	5,000	(400)	5,000	9,600

Dept X	Actual machine hours x M.H. rate	= 40,000 x €4	=	160,000
Dept Y	Actual labour hours x L.H. rate	= 37,000 x €0.80	=	29,600
Dept Z	Actual labour hours x L.H. rate	= 25,000 x €2	=	50,000

Costs incurred were €5,000 less than expected/budgeted and therefore profits are €5,000 greater than expected.
Costs incurred were €400 more than expected/budgeted and therefore profits are €400 less than expected
Costs incurred were €5,000 less than expected/budgeted and therefore profits are €5,000 greater than expected
Overall costs incurred were €9,600 less than expected/budgeted and therefore profits are €9,600 greater than expected. [2]

Question 9

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(a)

Cash Budget July to December

Receipts	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Total**
Cash Sales Receipts	155,800[1]	163,400[1]	212,800[1]	220,400[1]	231,800[1]	239,400[1]	1,223,600
Cr Sales 1 month		123,000[1]	129,000[1]	168,000[1]	174,000[1]	183,000[1]	777,000
Cr sales 2 months			123,000[1]	129,000[1]	168,000[1]	174,000[1]	594,000
	155,800	**286,400**	**464,800**	**517,400**	**573,800**	**596,400**	**2,594,600**
Payments							
Purchases 1 month		93,100[1]	102,900[1]	117,600[1]	122,500[1]	161,700[1]	597,800
Purchases 2 months			95,000[1]	105,000[1]	120,000[1]	125,000[1]	445,000
Wages	40,000[3]	40,000	40,000	40,000	40,000	40,000	240,000
Variable overhead	102,500[1]	107,500[1]	140,000[1]	145,000[1]	152,500[1]	157,500[1]	805,000
Fixed overhead	44,200[3]	44,200[1]	44,200[1]	44,200[1]	44,200[1]	44,200[1]	265,200
Equipment	48,000[1]						48,000
Interest	330[3]	330[1]	330[1]	330[1]	330[1]	330[1]	1,980
	235,030	**285,130**	**422,430**	**452,130**	**479,530**	**528,730**	**2,402,980**
Net Cash	(79,230)[1]	1,270[1]	42,370[1]	65,270[1]	94,270[1]	67,670[1]	191,620
Bank Loan	44,000[1]	44,000					
Opening balance		(35,230)[1]	(33,960)	8,410	73,680	167,950	
Closing balance	**(35,230)**	**(33,960)**	**8,410**	**73,680**	**167,950**	**235,620**[3]	**235,620**

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(b)

Budgeted Profit and Loss Account

	€	€
Sales (80,500 @ 40)		3,220,000 [2]
Less Cost of Sales		
Purchased - materials	1,570,000 [1]	
Labour (6 x 40,000)	240,000 [1]	
Variable overhead	805,000 [1]	
Fixed overhead (6 x 44,200)	265,200 [1]	(2,880,200)
Gross Profit		339,800
Depreciation – equipment	4,800 [1]	
Discount allowed	64,400 [2]	(69,200)
		270,600
Add Discount received		12,200 [1]
		282,800
Less interest		(1,980) [1]
Net Profit		**280,820** [2]

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(c)

An adverse variance is when actual costs exceed the budgeted costs. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.