Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2021

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.

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Q1 (a)Trading and Profit and Loss Account of A Kenny for the year ended 31/12/2020 [1]

		€		€		€	
Sales	W 1					1,769,300	**[3]**
Less Cost of Sales							
Opening stock				68,700	**[3]**		
Purchases	W2			987,000	**[8]**		
Less closing stock	W3			(85,200)	**[7]**	(970,500)	
Gross Profit						798,800	
Less Expenses							
Distribution Costs							
Depreciation Motor Vehicles	W4	79,750	**[4]**				
Loss on sale of vehicle	W4	1,600	**[4]**				
Increase in bad debt provision	W5	700	**[4]**				
Advertising	W6	32,600	**[7]**	114,650			
Administration Expenses							
Depreciation Land & Buildings	W7	10,140	**[4]**				
Salaries & General Expenses	W8	91,800	**[4]**				
Loss on fire	W9	9,000	**[3]**				
Rates		43,200	**[2]**	154,140		(268,790)	
						530,010	
Add Operating Income							
Bad Debt Recovered	W5			2,500	**[4]**		
Discount				4,700	**[3]**	7,200	
Operating Profit						537,210	
Investment Income	W10					2,625	**[3]**
						539,835	
Less Mortgage Interest	W11					(10,700)	**[5]**
Net profit						529,135	**[6]**

Balance Sheet of A. Kenny as at 31/12/2020 **45**

		Cost		Acc Dep		NBV	
Tangible Fixed Assets							
Land & Buildings		1,100,000	**[1]**	-		1,100,000	
Delivery Vans	W4	405,000	**[2]**	120,350	**[3]**	284,650	
Equipment		178,800	**[1]**	-		178,800	
		1,683,800		120,350		1,563,450	
Financial Assets							
Investments 3%						210,000	**[2]**
						1,773,450	
Current Assets							
Closing Stock	W3			85,200	**[2]**		
Debtors	W5	70,000	**[4]**				
Less Bad Debt Provision	W5	4,200	**[1]**	65,800			
Investment Income due	W10			425	**[3]**		
Insurance due				90,000	**[1]**		
				241,425			
Less Creditors: amounts falling due within 1 year							
Creditors	W12	69,600	**[5]**				
Bank	W13	46,400	**[5]**				
Vat		29,900	**[2]**				
Mortgage Interest due	W11	10,500	**[3]**				
PAYE PRSI USC		3,875	**[2]**	(160,275)		81,150	
						1,854,600	
Financed By							
Creditors: amounts falling due after 1 year							
5% Fixed Mortgage						280,000	**[2]**
Capital				800,000	**[1]**		
Revaluation Reserve	W14			308,140	**[3]**		
Profit & Loss 31/12/2020				529,135			
				1,637,275			
Less Drawings	W15			(62,675)	**[2]**	1,574,600	
Capital Employed						1,854,600	

Workings:			
1	Sales	1,797,300 - 28,000	1,769,300
2	Purchases	1,105,000 - 56,000 – 24,000 -38,000	987,000
3	Closing Stock	72,100 – 9,300 +22,400	85,200
4	Acc Dep: Delivery Vans	70,000 + 79,750 - 29,400	120,350
	Dep on Vans in P&L	19,000 + 60,750	
		or 2,100 + 67,600 + 10,050	79,750
	Delivery vans cost	380,000 +67,000 -42,000	405,000
	Loss on Disposal of Van	42,000 – 11,000-29,400	1,600
5	Debtors	97,300 -28,000 +700	70,000
	Bad Debt Provision	70,000 X .06	4,200
	Increase in Bad Debt Provision	3,500 – 4,200	700
	Bad debt recovered		2,500
6	Advertising	36,000-2,900-500	32,600
7	Depreciation – L&B	900,000 - 75,000 + 44,000 + 38,000	907,000
		(907,000- 400,000) X.02	10,140
8	Salaries & General Expenses	135,800 - 44,000	91,800
9	Loss on fire		9,000
10	Investment Income	210,000 x .03 X 5/12	2,625
	Investment Income due	2,625 -2,200	425
11	Mortgage Interest	2,875 + 10,500 = 13,375 – 2,675	10,700
		or 11,500 + 1,875 = 13,375 – 2,675	10,700
	Mortgage Interest due	13,375 – 2875	10,500
12	Creditors	68,600 - 2,900 – 900 + 4,800	69,600
13	Bank	52,100 +900 -1,800 – 4,800	46,400
		or 29,200 +17,200	46,400
14	Revaluation Reserve	193,000 + 105,000 + 10,140	308,140
15	Drawings	60,000 + 2,675	62,675

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Q1 (B) Manufacturing Account of Connolly Ltd for the year ended 31/12/2020 **[1]**

Direct Costs				
Opening stock raw materials		95,000		**[1]**
Purchases raw materials	W1	647,000		**[3]**
Carriage In raw materials		13,100		**[1]**
Closing Stock raw material		(52,400)		**[1]**
Cost of raw materials consumed			702,700	
Factory Wages		275,000		**[1]**
Hire of Special Equipment		45,000	320,000	**[2]**
Prime Cost			1,022,700	
Factory Overheads				
Patents written off	W2			**[4]**
General Factory overhead	W3	111,000		**[7]**
Loss on fire	W4	1,200		**[2]**
Depreciation plant & Machinery	W5	79,420	210,620	**[5]**
			1,233,320	
Opening stock Work in Progress			26,700	**[2]**
Closing stock Work in Progress			(24,900)	**[2]**
			1,235,120	
Less Sale of Scrap	W6		(9,000)	**[3]**
Profit on Disposal	W7		(680)	**[5]**
Cost of Manufacture			1,225,440	

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Trading Profit and Loss Account for Connolly Ltd for the year ended 31/12/2020

Sales	W8		1,734,000	**[3]**
Less Cost of Sales				
Opening stock finished goods		60,000		**[2]**
Cost of Manufacture		1,225,440		**[2]**
Closing stock finished goods	W9	(76,800)	(1,208,640)	**[3]**
Gross Profit			525,360	
Selling and Distribution Costs				
Change in Provision for bad debt	W10	1,328		**[3]**
Selling expenses	W11	104,020	(105,348)	**[3]**
Administration Expenses				
Administration Expenses		121,800	(121,800)	**[2]**
			298,212	
Add Operating Income				
Discount	W12		2,300	**[3]**
Operating Profit				
Investment Income	W13		2,250	**[3]**
Debenture Interest	W14		(11,200)	**[3]**
Net Profit			291,562	
Dividend Paid			(68,000)	**[2]**
Retained Profit			223,562	
Profit and Loss 01/01/2020			(358,000)	**[2]**
Profit and Loss 31/12/2020			(134,438)	**[4]**

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Balance Sheet of Connolly Ltd as at 31/12/2020

	Cost	Acc Dep	NBV	Total
Intangible Assets	**€**	**€**	**€**	**€**
Patents				57,000**[1]**
Tangible Fixed Assets				
Factory Buildings	1,008,000	148,000 **[1]**	860,000	
Plant and Machinery W15/16	836,000 **[2]**	723,740 **[3]**	112,260	
	1,844,000	871,740	972,260	972,260
Financial Investments				
3% Investments				180,000**[2]**
				1,209,260
Current Assets				
Closing Stock: Raw Materials	52,400 **[1]**			
Work in Progress	24,900 **[1]**			
W9 Finished Goods	76,800 **[1]**	154,100		
Debtors W17	158,200 **[9]**			
Less Provision for Bad Debts W18	(6,328) **[1]**	151,872		
Bank W19		145,800 **[5]**		
Investment Income due W13		2,250 **[1]**		
Insurance Compensation due W4		6,800 **[2]**		
			460,822	
Less Creditors: amounts falling due within 1 year				
Creditors W20	89,600 **[4]**			
VAT	29,900 **[2]**			
Sales Expenses due W11	17,020 **[3]**			
Debenture Interest due W21	8,000 **[2]**		(144,520)	316,302
				1,525,562
Financed By				
Creditors: amounts falling due after 1 year				
4% Debentures			300,000**[2]**	
Capital and Reserves	**Authorised**	**Issued**		
Ordinary shares @ €1 each	2,500000	1,000,000 **[1]**		
5% Preference shares @ €1 each	500,000	360,000 **[1]**		
		1,360,000		
Profit and Loss balance 31/12/2020		(134,438)	1,225,562	
				1,525,562

Question 1 (B): Workings			
1	Purchases	655,000 – 8,000	647,000
2	Patents written off	76,000 ÷ 4	19,000
3	General Factory Overheads	101,400 – 1,400 + 11,000	111,000
4	Loss on Fire	8,000 – 6,800	1,200
5	Depreciation Plant and Machinery	836,000 x 95% ÷ 10	79,420
6	Sale of Scrap	20,000 – 11,000	9,000
7	Profit on Disposal	24,000 – 13,680 – 11,000	680
8	Sales	1,750,000 – 16,000	1,734,000
9	Closing Stock of finished goods	64,000 + 12,800	76,800
10	Increase in bad debt provision	5,000 – 6,328	1,328
11	Selling Expenses	87,000 + 7,020(3% x 234,000) + 10,000(2% x 500,000)	104,020
12	Discount Net	3,700 – 1,400	2,300
13	Investment Income	180,000 x 3% x 5÷12	2,250
14	Debenture Interest	3,200 + 8,000 or 9,600 + 1,600	11,200
15	Plant & Machinery Cost	860,000 – 24,000	836,000
16	Plant & Machinery Acc Dep	658,000 + 79,420 – 13,680	723,740
17	Debtors	174,000 – 16,000 + 2,000 – 1,800	158,200
18	Provision for Bad Debts	4% x 158,200	6,328
19	Bank	146,000 -2,000 +1,800	145,800
		148,300 – 2,500	145,800
20	Creditors	78,600 + 11,000	89,600
21	Debenture Interest due	11,200 – 3,200	8,000

Q.2 Tabular Statement

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	01/01/2020	Jan	Feb	Mar	May	Aug	Nov	Dec	31/12/20
Goodwill			6,000 **[2]**						6,000
Land and Buildings	390,000	60,000 **[2]**	78,000 **[1]**						528,000
Less Accum Dep	(15,000)	15,000 **[2]**						(8,030) **[2]**	(8,030)
Equipment	144,000		38,000 **[1]**				(5,000) **[2]**		177,000
Less Accum Dep	(47,800)						2,400 **[2]**	(9,200) **[2]**	(54,600)
Stock	56,200					750 **[2]**			56,950
Debtors	104,000		10,000 **[1]**			(1,000) **[2]**			113,000
Bad Debt Provision	(4,160)			(970) **[2]**					(5,130) **[1]**
Expenses Prepaid	1,200				7,500 **[2]**			(7,450) **[2]**	1,250 **[1]**
Total Assets	**628,440**	**75,000**	**132,000**	**(970)**	**7,500**	**(250)**	**(2,600)**	**(24,680)**	**814,440**
Share Capital	450,000		100,000 **[1]**						550,000
Share Premium	90,000		20,000 **[1]**						110,000 **[1]**
Creditors	39,400		12,000 **[1]**				(2,700) **[2]**		48,700
Bank	14,500				1,150 **[4]**				15,650 **[2]**
VAT	4,000					(207) **[2]**			3,793
Rent Received Prepaid					6,350 **[2]**			(5,080) **[2]**	1,270 **[1]**
Revaluation Reserve		75,000 **[2]**							75,000
Profit and Loss Bal	30,540			(970) **[1]**		(43) **[2]**	100 **[2]**	(19,600) **[4]**	10,027 **[1]**
Total Liabilities	**628,440**	**75,000**	**132,000**	**(970)**	**7,500**	**(250)**	**(2,600)**	**(24,680)**	**814,440**

Q3 Depreciation of Fixed Assets

	Annual Depreciation	To 31/12/2018	2019	2020	Total
60,000	9,000	36,000	9,000	6,000	51,000
24,000	4,800/3,600	11,400	3,600	2,400	17,400
74,000	11,100	30,525	11,100	11,100	
84,000	12,600	17,850	5,250		23,100
90,000	13,500		7,875	13,500	
96,000	14,400			4,800	
		95,775	36,825	37,800	

(a) **6**

Vehicles Account

01/01/19	Balance b/d	242,000	**[2]**	01/06/19	Disposal - 3	84,000	**[1]**
01/06/19	Bank and Trade In	90,000	**[1]**	31/12/19	Balance c/d	248,000	
		332,000				332,000	
01/01/20	Balance b/d	248,000		01/09/20	Disposal – 1	84,000	**[1]**
01/09/20	Bank	96,000	**[1]**	31/12/20	Balance c/d	260,000	
		344,000				344,000	

(b) **32**

Provision for Depreciation Account

01/06/19	Disposal – 3	23,100	**[4]**	01/01/19	Balance c/d	95,775	**[6]**
31/12/19	Balance c/d	109,500		31/12/19	P & L	36,825	**[7]**
		132,600				132,600	
01/09/20	Disposal – 1	68,400	**[4]**	01/01/20	Balance b/d	109,500	
31/12/20	Balance c/d	78,900	**[3]**	31/12/20	P & L	37,800	**[8]**
		147,300				147,300	

(c) **14**

Vehicle Disposal Account

01/06/19	Vehicles – 3	84,000	**[1]**	01/06/19	Depreciation – 3	23,100	**[2]**
					Compensation	50,000	**[2]**
					Trade In	4,000	**[2]**
				31/12/19	P & L	6,900	**[1]**
		84,000				84,000	
01/09/20	Vehicles – 1	84,000	**[1]**	01/09/20	Depreciation – 1	68,400	**[2]**
31/12/20	P & L	400	**[1]**		Trade In	16,000	**[2]**
		84,400				84,400	

(d)

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(i) Explain why a company charges depreciation in calculating profit.

Depreciation is charged so as to write off the cost of the tangible fixed asset over its useful economic life. Depreciation is an expense in the Income Statement /Profit and Loss Account.

Failure to include depreciation in the final accounts causes

- the profit to be overstated
- the net worth to be overstated

The financial statements would not show a true and fair view of the business

(ii) Show the relevant extract from the profit and loss account year ended 31/12/2020.

Profit and loss account for the year ending 31/12/2020

Less Selling Expenses	Vehicles Depreciation	37,800
Add Profit on Disposal		400

Q4 Debtors Control Accounts

(a) **22**

Adjusted Debtors Control Account.							
	Balance b/d	**[1]**	44,400		Balance b/d	**[1]**	820
(i)	Discount Disallowed	**[4]**	150	(ii)	Interest	**[4]**	24
(iv)	Bad debt recoverable	**[4]**	55	(v)	Sales overstated	**[3]**	360
(vi)	Restocking Charge	**[4]**	18		Balance c/d		44,239
	Balance c/d	**[1]**	820				
			45,443				45,443
	Balance		44,239		Balance b/d		820

(b) **30**

Schedule of Debtors Accounts Balances				37,135	**[3]**
Add					
(i)	Discount	132	**[4]**		
(ii)	Interest	144	**[5]**		
(iii)	Credit sales	3,390	**[5]**		
(iv)	Bad debt recovered	55	**[4]**		
(v)	Sales	2,590	**[4]**	6,311	
				43,446	
Deduct					
(vi)	Reduction in restocking charge	27	**[4]**	(27)	
	Balance as per adjusted control a/c			43,419	**[1]**

(c) **8**

Explain the importance of control accounts.

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 They help to locate errors quickly by narrowing the search to confined areas.

3 They allow the total amount owed by debtors/total amount owed to creditors to be ascertained quickly by simply balancing the control accounts.

4 They are useful when a firm wishes to find credit sales/credit purchases when having to do final accounts from incomplete records.

Q5 Interpretation of Accounts **50**

(a)

(i) Cash sales if the period of credit given to debtors is 3 months.

$$\frac{\text{Debtors X 12}}{\text{Credit sales}} = 3 \qquad \frac{174{,}000 \text{ X } 12}{\text{Credit sales}} = 3$$

$$\frac{174{,}000 \text{ X } 12}{3} = 696{,}000$$

Total sales less credit sales = cash sales

908,000 - 696,000 = 212,000 **[12]**

(ii) Return on capital employed.

$$\frac{\text{Operating profit X100}}{\text{Capital Employed}} \qquad \frac{39{,}000 + 20{,}000 \text{ X } 100}{621{,}000} = 9.5\%$$ **[10]**

(iii) The Current Market Price if the Price Earnings Ratio is 12 times

$$\text{EPS} = \frac{\text{Net profit – preference dividend}}{\text{No of ordinary shares}} \qquad \frac{39{,}000 - 9{,}000}{200{,}000} = 15 \text{ c}$$

Price Earnings Ratio x Earnings Per Share 12 x 15c = 180c **[10]**

(iv) Dividend Cover

$$\frac{\text{Net Profit – Preference Dividend}}{\text{Ordinary Dividend}} = \frac{30{,}000}{4{,}000} = 7.5 \text{ times}$$ **[10]**

(v) Interest Cover

$$\frac{\text{Operating Profit}}{\text{Debenture Interest}} = \frac{39{,}000 + 20{,}000}{20{,}000} = 2.95 \text{ times}$$ **[8]**

(b) **40**

The Shareholders would be broadly satisfied with the performance, state of affairs and prospects of the company, for the following reasons: **[2]**

Performance

Profitability [7]

The return on capital employed for 2020 is 9.5%. It has improved by 0.43% from 2019 when the return was 9.07%.
The Return on Equity Finance is also very good at 11.07%.
The company is in a relatively profitable position as the return of 9.5% is much better than the return from risk free investments of 0-2% and is above the Debenture rate of 8% and the Preference Capital rate of 9%.
The company is making efficient use of its resources this year.
The earnings per share have disimproved slightly by 1 cent per share from 16 cent in 2019 to 15 cent in 2020.

Dividend Policy [7]

The dividend cover is 7.5 times, the firm is paying out 13.33% of its available profits in dividends. Last year's dividend cover was 2.5 times meaning the firm was paying out 40% of available profits to shareholders.
This is an improvement, as much more profit is being retained for expansion purposes and the repayment of loans.
The dividend per share has fallen from 6.4 cent in 2019 to 2 cent in 2020 which will make shareholders unhappy.
The dividend yield has disimproved from 4% last year to 1.1% this year and is only marginally above the return on risk free investments of 0-2%.

State of Affairs

Liquidity [8]

The Acid Test (Quick Ratio) has improved from 1.8:1 in 2019 to 2.49:1 in 2020, and is above the ideal of 1:1.
The Working Capital Ratio is also an extremely safe 3.37 to 1.
Fauci plc does not have liquidity problems and is able to pay its bills as they arise.
They have 249 cent available in Liquid Assets for every Euro they owe in the short run which means they will have no trouble paying interest and future dividends.
However Fauci's liquidity figures are too conservative. Too much capital is tied up in Debtors and is unavailable for other purposes.

Gearing [7]

Gearing has improved from 62% in 2019 to 56.36% in 2020, but it is still highly geared.
This is a positive trend, Fauci plc are now less dependent on outside borrowing than before but there would appear to be significant risk to the firm from outside investors. They are less financed by debt this year than last year but are still financed more by debt than equity.
If using the debt to equity ratio the gearing position has disimproved from 62% to 129.15% which is a negative trend. The company is now more dependent on outside borrowing than before and there is significant risk to the firm from outside investors. The business is highly geared and is financed more by debt than by equity.
Interest cover has worsened from 3.2 times in 2019 to 2.95 times in 2020. The firm could have trouble making their interest payments in the future.
These figures mean that the firm may not have extra funds available for paying dividends, or reinvesting for expansion purposes, or paying off debt.
However, the Debentures are not listed for repayment until 2030. Fauci plc has enough time to put aside resources to be able to repay these when the time comes.
The bank account is overdrawn yet Debtors owe €174,000. Fauci should follow up on this.

Prospects

Sector [4]

Fauci plc is in the computer security industry. In the short term this industry is growing as more people work from home increasing the need for computer security systems. In the long term, the economic recovery is uncertain and the firm is likely to face competition and takeover from large multinational competitors.

Share Performance [5]

The earnings per share has disimproved slightly from 16c per share in 2018 to 15 c per share in 2020.The Price Earnings Ratio has increased slightly in the same period from 10 years to 12 years, meaning it will take a longer time to earn back the Market Price of the share at current performance levels. The market share price has improved from €1.60 to €1.80 since last year.

This indicates that the investors in the stock market have confidence in the company.

(c) **10**

(i) What are the disadvantages to a business of having a high gearing?

When fixed interest debt is a high proportion of overall capital it has the following disadvantages:

1. High interest repayments means less profits are available for investment elsewhere in the business.
2. Shareholders are less likely to get a good dividend when gearing is high.
3. The business would find it more difficult to raise additional loan finance.
4. There is a higher risk of liquidation due to not being able to make interest payments.

(ii) Explain two ways to reduce gearing of a company.

1. Sell more ordinary shares to increase shareholders equity as a proportion of capital employed.
2. Reduce or repay loans to reduce fixed interest debt as a proportion of capital employed.
3. Increase reserves/retained profits to increase shareholders equity as a proportion of capital employed.
4. Convert long-term debt to ordinary shares reducing fixed interest debt and increasing shareholders equity.

6. Published Accounts

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Published Profit and Loss Account of Tedros plc for year ended 31/12/2020

	€	
Turnover	2,036,600	**[2]**
Cost of sales	(1,148,940)	**[5]**
Gross profit	887,660	
Distribution costs	(185,350)	**[5]**
Administration expenses	(567,350)	**[6]**
Other operating income	100,200	**[3]**
Operating profit	235,160	
Exceptional item	87,000	**[2]**
Income from financial investments	3,600	**[3]**
Interest payable	(16,800)	**[3]**
Profit on ordinary activities before taxation **[1]**	308,960	
Tax on profit on ordinary activities	(46,000)	**[2]**
Profit on ordinary activities after taxation	262,960	
Dividends paid	(42,000)	**[2]**
Retained profit	220,960	
Profit and loss balance 01/01/2020	127,710	**[3]**
Profit and loss balance 31/12/2020	348,670	**[3]**

Workings:

1	Cost of Sales	58,600	+ 1,123,000	-72,660	+40,000		1,148,940
2	Distribution Costs	88,700	+18,000	+2,450	+76,200		185,350
3	Administration Expenses	424,000	+12,000	+64,000	+7,350	+60,000	567,350
4	Other Operating Income	55,200	+27,000	+18,000			100,200
5	Investment Income due	3,600	- 2,400				1,200
6	Interest payable due	16,800	- 14,000				2,800
7	Intangible Assets	120,000	- 40,000				80,000
8	Debtors	370,460	+1,200	+24,500	-14,800		381,360
9	Other Creditors	2,800	+12,000	+64,000	+60,000		138,800
10	Revaluation Reserve	410,000	+72,400				482,400

Balance Sheet of Tedros plc as at 31/12/2020

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Fixed Assets	**€**	**€**	**€**
Intangible assets			80,000 **[1]**
Tangible assets			1,595,600 **[2]**
Financial assets			120,000 **[1]**
			1,795,600
Current Assets			
Stock	72,660 **[1]**		
Debtors	381,360 **[4]**		
Bank	75,000 **[1]**	529,020	
Less Creditors: amounts falling due within 1 year **[1]**			
Trade creditors	168,750 **[1]**		
Other creditors	138,800 **[4]**		
Taxation	46,000 **[2]**	(353,550)	
Net current assets			175,470
Total assets less current liabilities			1,971,070
Creditors: amounts falling due after 1 year			
7% Debentures		240,000 **[2]**	
Capital and Reserves			
Called up share capital		900,000 **[1]**	
Revaluation reserve		482,400 **[3]**	
Profit and loss balance		348,670 **[1]**	
			1,971,070

[1]

Notes to the Accounts **Accounting Policy Notes.** **24**

1. Tangible Fixed Assets and stock [5]

Buildings were revalued at the end of this year to €1,250,000 and have been included in the accounts at their revalued 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% of cost per annum straight line basis
- Delivery vans 15% of cost per annum straight line basis

Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit [5]

The operating profit is arrived at after charging:	**€**
Depreciation on tangible fixed assets	86,000
Patent amortised	40,000
Directors fees	64,000
Auditors fees	12,000

3. Contingent Liability [4]

The company has provided €60,000 for a claim made by an employee for unfair dismissal. The company's legal advisers have advised that the company will probably be liable for the full €60,000 of the claim.

4. Tangible Fixed Assets [7]

	Land & Buildings	**Delivery Vans**	**Total**
	€	**€**	**€**
Cost 01/01/2020	1,100,000	508,000	1,608,000
Disposal	(260,000)		(260,000)
Revaluation Surplus	410,000		410,000
	1,250,000	508,000	1,758,000
Accumulated depreciation 01/01/2020	62,600	86,200	148,800
Charge for year 31/12/2020	9,800	76,200	86,000
	72,400	162,400	234,800
Transfer to revaluation	(72,400)		(72,400)
	0	162,400	162,400
Net book value 01/01/2020	1,037,400	421,800	1,459,200
Net book value 31/12/2020	1,250,000	345,600	1,595,600

5. Interest payable [3]

Interest payable on debentures €240,000 (Repayable by 2025/2026) is €16,800.

(b) State what is meant by an "Exceptional Item" and give an example. **10**

Exceptional Item

This is a material item of significant size.
It is a profit or loss that must be shown separately in the profit and loss account because of its size.
Example: Profit or loss on sale of land or a large bad debt.

Explain what is meant by an auditor's qualified report.

Auditors Qualified Report

An auditor's qualified report is when an auditor in his or her opinion is **not** satisfied that all of the following apply:

- The financial statements give a true and fair view of the state of affairs of the company at the end of the year.
- The financial statements are prepared in accordance with the Companies Acts.
- All the information necessary for the audit was available.
- The information given by the directors is consistent with the financial statements.
- The net assets are more than 50% of the called-up capital.

The report will state the elements of the accounts that are **not** satisfactory.

Question 7

(a)

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(i) Abridged Profit and Loss account of Reid plc for the year ending 31/12/2020

	€	
Operating profit	295,600	
Investment Income	1,600	**[3]**
Less Debenture Interest	(24,000)	**[3]**
Profit before tax	273,200	
Taxation	(68,400)	**[3]**
Profit after tax	204,800	
Less Dividends	(45,000)	**[3]**
Retained Profit	159,800	
Profit and loss balance 01/01/2020	143,400	**[3]**
Profit and loss balance 31/12/2020	303,200	**[3]**

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Reconciliation of operating profit to net cash flow from operating activities.

		€	
Operating Profit		295,600	**[1]**
Depreciation charge for the year	W5	34,000	**[2]**
Less Profit on sale of Land and Buildings	W2	(18,000)	**[1]**
Patents written off		9,000	**[2]**
Decrease in Stock		20,000	**[3]**
Increase in Debtors		(70,000)	**[3]**
Increase in Creditors		24,000	**[3]**
Increase in Bad Debt Provision		3,400	**[2]**
Net cash flow from operating activities		298,000	

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(ii) Cash Flow statement of P. Reid plc for the year ended 31/12/2020

		€		€	
Operating Activities					
Net cash inflow from operating activities				298,000	**[2]**
Return on Investment and Servicing of Finance [1]					
Investment Income Received	W6	1,000	**[4]**		
Debenture Interest Paid		(29,000)	**[4]**	(28,000)	
Taxation [1]					
Tax Paid	W7	(34,000)		(34,000)	**[3]**
Capital Expenditure and Financial Invest. [1]					
Receipts for Sale of Buildings		90,000	**[3]**		
Payments to Acquire Buildings	W1	(270,000)	**[5]**		
Payments to Acquire Machinery	W4	(60,000)	**[4]**	(240,000)	
Equity Dividends Paid [1]					
Equity Dividends Paid		(45,000)		(45,000)	**[3]**
Net Cash Outflow before Liquid Resources and Financing				(49,000)	
Management of Liquid Resources [1]					
Purchase of Government Securities		(40,000)		(40,000)	**[3]**
Financing [1]					
Repayment of Debentures		(50,000)	**[3]**		
Receipts from Issue of Ordinary Shares		150,000	**[2]**		
Receipts from Share Premium		30,000	**[2]**	130,000	
Increase in Cash				41,000	**[2]**

Workings

1	Purchase of Buildings	920,000 + 100,000 – 750,000	=	270,000
2	Profit on sale of Buildings	(28,000+90,000)-100,000	=	18,000
3	Depreciation on Disposed Building	90,000 + 20,000 – 82,000	=	28,000
4	Purchase of Machinery	300,000 – 240,000	=	60,000
5	Depreciation Machinery	114,000 + 20,000 – 120,000	=	14,000
6	Investment Income Received	400 + 1,600 – 1,000	=	1,000
7	Taxation Paid	34,000 + 68,400 – 68,400	=	34,000
8	Debenture Interest	24,000 +15000 -10,000	=	29,000

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Reconciliation of Net Cash to Movement in Net Debt

	€		€	
Increase in Cash			41,000	**[1]**
Cash used to Purchase Liquid Resources			40,000	**[1]**
Redemption of Debentures			50,000	**[1]**
Change in Net Debt			131,000	
Net Debt 01/01/2020				
Debentures	(300,000)			
Bank	27,000			
Government Securities	20,000		(253,000)	**[2]**
			(122,000)	
Net Debt 31/12/2020				
Debentures	(250,000)			
Bank	68,000			
Government Securities	60,000		(122,000)	**[2]**

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(b)

(i) Explain why earning profit may not always result in a corresponding increase in cash balances. Use figures from this question to support your answer.

P. Reid plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €295,600 was made but the increase in cash for the year was only €41,000.

Reasons:

Profit, but not Cash

1. Credit Sales increase profit, but do not increase cash. Debtors increased by €70,000.
2. Profit on disposal of Fixed Assets, increase profit by €18,000 but does not increase cash by the same amount.
3. Depreciation on Fixed Assets of €34,000 reduces profit but does not reduce cash.
4. Patents written off €9,000 reduces profit, but does not reduce cash.
5. Increase in Bad Debts Provision of €3,400 reduces profit but has but does not reduce cash.

Cash, but not Profit

6. Receipts from the Sale of Fixed Assets €90,000 increases cash but has no immediate effect on profit.
7. Payments for the Purchase of Fixed Assets €330,000 reduces cash but has no immediate effect on profit.
8. Receipts from Issue of Shares and Premium, €180,000 increase cash but has no immediate effect on profit.
9. Payments to redeem Debentures, €50,000, reduce cash but has no immediate effect on on profit.

(ii) Outline the reasons why Reid PLC would prepare a cash flow statement.

1. To show cash inflows and cash outflows during the year.
2. To assist in predicting future cash flows.
3. To aid financial planning.
4. To provide information for assessing liquidity.
5. To highlight that profit does not always equal cash.
6. To assist in applications for loans from financial institutions.
7. To comply with Company Law.

Question 8 **30**

(a) Stock Valuation

Purchases in Units	Unit Cost	Purchases at cost in €
4,500	€5	22,500
3,600	€8	28,800
2,600	€7	18,200
10,700		69,500

Credit Sales				Cash Sales				Total Sales	
Units			€	Units			€	Units	€
1,100	@	€10	11,000	1,700	@	10	17,000	2,800	28,000
1,400	@	€11	15,400	1,200	@	11	13,200	2,600	28,600
1,600	@	€12	19,200	1,350	@	11	14,850	2,950	34,050
4,100			**45,600**	4,250			**45,050**	8,350	**90,650**

Closing Stock in Units
= Opening Stock 4,700 + Purchases 10,700 – Sales 8,350 = 7,050 units **[6]**

Closing Stock Valuation: (FIFO)	**Units**				**€**
	2,600	@	€7	=	18,200 **[2]**
	3,600	@	€8	=	28,800 **[2]**
	850	@	€5	=	4,250 **[3]**
	7,050				**51,250 [3]**

Trading account for the year ending 31/12/2020			**€**
Sales			90,650**[3]**
Less Cost of sales			
Opening Stock	23,500	**[3]**	
Add Purchases	69,500	**[3]**	
	93,000		
Less Closing Stock	51,250	**[3]**	(41,750)
Gross Profit		**[2]**	48,900

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(b) (i) Overhead absorption rates for each department.

	Manufacturing	**Assembly**	**Finishing**
Budgeted Overheads	€840,000	€389,400	€187,000
Direct Labour Hours	42,000	22,000	8,500
	€20.00 per DLH [2]	**€17.70 per DLH [2]**	**€22.00 per DLH [2]**

(ii) **Selling Price of Job Number 667**

		€		€	
Direct materials	(45 x 12.20)			549.00	**[2]**
Direct Labour					
Manufacturing	(24 x 19.00)	456.00	**[2]**		
Assembly	(8 x 16.00)	128.00	**[2]**		
Finishing	(2 x 18.50)	37.00	**[2]**	621.00	
Budgeted Overheads					
Manufacturing	(24 x 20.00)	480.00	**[3]**		
Assembly	(8 x 17.70)	141.60	**[3]**		
Finishing	(2 x 22.00)	44.00	**[3]**	665.60	
General Administration overhead	(34 x €6.00)			204.00	**[6]**
Total Cost Job 667	[80%]			2,039.60	**[3]**
Profit: [20% of Selling Price]				509.90	
Net Selling Price [100%]				2,549.50	**[2]**

(c) (i) **Under and over absorption of costs** **16**

Dept A	**Dept B**	**Dept C**
€234,000	€64,800	€88,400
36,000	54,000	26,000

= **€ 6.50 per M.H [2] = €1.20 per L.H [2] = €3.40 per LH [2]**

(ii)

	Dept A €		**Dept B** €		**Dept C** €		**Total** €
Actual overhead incurred	262,500	**[1]**	59,200	**[1]**	98,200	**[1]**	419,900
Absorbed overhead	253,500	**[1]**	60,000	**[1]**	96,560	**[1]**	410,060
Over/(Under) absorption	(9,000)		800		(1,640)		(9,840)

Actual Absorbed Overheads

Dept A: Actual machine hours x mac hr rate = 39,000 x €6.50 = €253,500

Dept B: Actual labour hours x lab hr rate = 50,000 x €1.20 = €60,000

Dept C: Actual labour hours x lab hr rate = 28,400 x €3.40 = €96,560

[4]

1. In department A, the costs incurred were €9,000 more than expected/budgeted and therefore, profits are €9,000 less than expected.

2. In department B, the costs incurred were €800 less than expected/budgeted and therefore, profits are €800 greater than expected.

3. In department C, the costs incurred were €1,640 more than expected/budgeted and therefore, profits are €1,640, less than expected.

4. Overall, the costs incurred were €9,840 more than expected/budgeted and therefore, profits are €9,840 less than expected.

   Conroy Manufacturing Ltd have costed their products too low.

Question 9 Flexible Budgeting

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(a) (i)

Production overheads	Units	Total Cost
		€
High	47,500	217,000
Low	27,500	129,000
Difference	20,000	88,000

The variable cost of 20,000 units is 88,000 therefore the variable cost per unit is €4.40 **[7]**

Total production overhead cost	129,000	217,000
Less variable costs [units × €4.40]	(121,000)	(209,000)
Fixed cost	8,000	8,000**[7]**

(ii)

Other overheads	Units	Total Cost
		€
High	47,500	255,875
Low	27,500	150,875
Difference	20,000	105,000

The variable cost of 20,000 units is 105,000 therefore the variable cost per unit is €5.25 **[7]**

Total production overhead cost	150,875	255,875
Less variable costs [units × €5.25	(144,375)	(249,375)
Fixed cost	6,500	6,500**[7]**

(iii)

Flexible Budget 90 % Activity Level in Marginal Costing format		
	€	€
Sales		**[1]**1,295,312.50
Less: variable costs		
Direct materials [45,000 × 5.50]	**[1]**247,500	
Direct labour [45,000 × 6.70]	**[1]**301,500	
Production overheads [45,000 × 4.4]	**[1]**198,000	
Other overhead costs [45,000 × 5.25]	**[1]**236,250	(983,250)
Contribution		**[3]**312,062.5
Less: fixed costs		
Production overheads	**[2]**8,000	
Other overheads	**[2]**6,500	
Administration	**[2]**38,500	(53,000)
Profit		259,062.50 **[2]**

(b)

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Option 1

Flexible Budget 100 % Activity Level in Marginal Costing format		
Option 1	€	€
Sales		**[1]**1,394,375
Less: variable costs		
Direct materials [50,000 × 5.50]	**[1]**275,000	
Direct labour [50,000 × 6.70]	**[1]**335,000	
Production overheads [50,000 × 3]	**[1]** 150,000	
Other overhead costs [50,000 × 5.25]	**[1]** 262,500	(1,022,500)
Contribution		**[3]** 371,875
Less: fixed costs		
Production overheads	**[1]** 48,000	
Other overheads	**[1]** 6,500	
Administration	**[1]** 38,500	(93,000)
Profit		**[1]** 278,875

Option 2

Flexible Budget 115 % Activity Level in Marginal Costing format		
	€	€
Sales		**[1]** 1,633,406.25
Less: variable costs		
Direct materials [57,500× 5.50]	**[1]** 316,250	
Direct labour [57,500 × 6.70]	**[1]** 385,250	
Production overheads [57,500 × 4.4]	**[1]** 253,000	
Other overhead costs [57,500 × 5.25]	**[1]** 301,875	(1,256,375)
Contribution		**[3]** 377,031.25
Less: fixed costs		
Production overheads	**[1]** 7,600	
Other overheads	**[1]** 6,175	
Administration	**[1]** 36,575	(50,350)
Profit		**[1]** 326,681.25

Choose option 2 because the profit is €47,806.25 higher than in option 1. **[2]**

(c)

10

(i) What is meant by the term sensitivity analysis.

Sensitivity Analysis is also known as 'what if' analysis. It is a technique used by management accountants to show the effect on profit brought about by changes in the following:

1. Selling price
2. Sales volume
3. Variable costs
4. Fixed costs

The examples in part (b) of the question are examples of sensitivity analysis.

(ii) Outline why Henry Ltd would prepare a flexible budget.

1. To show management the cost levels at different levels of production. It is misleading to compare the budgeted costs at one level of activity with the actual costs at a different level of activity.
2. To compare actual costs and budgeted costs at the same level of activity, in order to determine if actual costs exceeded or were less than budgeted costs.
3. To compare budgeted costs and actual costs in order to identify variances. This allows corrective action to be taken.
4. To help in controlling costs or planning production levels.