



Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2016

ACCOUNTING - HIGHER LEVEL (400 marks)

MONDAY 20 JUNE – AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).

This section has four questions (Numbers 1 - 4). The first question carries 120 marks and the remaining three questions carry 60 marks each.

Candidates should answer either **QUESTION 1 only** OR attempt any **TWO** of the remaining three questions in this section.

Section 2: Financial Accounting (200 marks).

This section has three questions (Numbers 5 - 7). Each question carries 100 marks.

Candidates should answer any **TWO** questions.

Section 3: Management Accounting (80 marks).

This section has two questions (Numbers 8 and 9). Each question carries 80 marks.

Candidates should answer **ONE** of these questions.

Calculators

Calculators may be used in answering the questions on this paper. It is very important that workings are shown in the answer book(s) so that full credit can be given for correct work.

2. Debtors Control Account

The debtors' ledger control account of W. McGuinness showed the following balances: €27,000 dr and €650 cr on 31/12/2015. These figures did not agree with the schedule (list) of debtors balances extracted on the same date. An examination of the books revealed the following:

- (i) Discount allowed to a customer of €120 had been treated as discount disallowed €210 in the general ledger. No entry was made to the customer's account.
- (ii) Interest amounting to €95, charged to a customer's overdue account, had been correctly entered in the customer's account and entered as €59 in the interest account. Following a complaint by the customer the charge was reduced to €65. This reduction had not been entered in the books.
- (iii) Sales of €1,720 had been entered on the credit side of a customer's account. This included cash sales of €1,240.
- (iv) A contra entry of €140 had been entered on the incorrect side of the control account. When making the entry in the customer's account the item was entered as €410 on the incorrect side.
- (v) Bills receivable of €560 was entered on the incorrect side of a customer's account.
- (vi) McGuinness accepted returns of €300 from a customer and this was entered correctly in the books. However, a credit note was sent showing a restocking charge of 10% of the sales price. The accounts clerk only made the necessary adjustment in the customer's account. Later this charge was reduced to 5% but this reduction was not reflected in the accounts.

Required:

- (a) Prepare the adjusted debtors' ledger control account. (22)
 - (b) Prepare the adjusted schedule of debtors showing the original balance. (30)
 - (c) (i) Give **two** reasons for preparing debtors' control accounts.
(ii) Explain **one** limitation of using control accounts. (8)
- (60 marks)**

3. Club Accounts

Included in the assets and liabilities of Stretford Golf Club on 01/01/2015 were the following: clubhouse and course €650,000, bar stock €6,000, equipment at cost €24,000, bar debtors €355, life membership €40,000, bar creditors €3,000, wages due €1,500, levy reserve fund €50,000, subscriptions received in advance €1,400, investment interest due €300.

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2015.

Receipts and Payments account for the year ended 31/12/2015

Receipts	€	Payments	€
Subscriptions	102,900	Bank current account balance 01/01/2015	8,500
Catering receipts	6,500	Bar purchases	33,600
Interest on 4% investments	2,400	Catering purchases	4,800
Bar receipts	76,300	Equipment	18,000
Entrance fees	10,000	Sundry expenses	124,350
Annual sponsorship	11,400	Competition prizes	22,100
Equipment grant	25,000	Dishonoured cheque – bar debt	80
Competition receipts	25,600	Bank loan plus 15 months interest paid at 8% on 31/12/2015	33,000
		Balance 31/12/2015	<u>15,670</u>
	<u>260,100</u>		<u>260,100</u>

You are given the following information and instructions:

- (i) Stocks on 31/12/2015; bar stock €16,900, catering stock €600.
- (ii) Investment interest due on 31/12/2015 was €400.
- (iii) Equipment owned on 31/12/2015 is to be depreciated at the rate of 20% of cost.
- (iv) Clubhouse and course to be depreciated by 2%.
- (v) Subscriptions include:
 1. Two life memberships bringing total life membership to 10.
 2. Subscriptions for 2016 amounting to €800.
 3. Levy for 2015 of €50 each on all 500 members.
 4. Levy for 2014 of €50 each due from 20 members.
- (vi) The club has decided that life membership is to be credited to income over a 10 year period commencing in 2015.
- (vii) The dishonoured cheque was not subsequently recovered and was written off as a bad debt.
- (viii) Bar debtors and creditors on 31/12/2015 were €500 and €1,230 respectively.

Required:

- (a) Show the club's accumulated fund (capital) on 01/01/2015. (25)
- (b) Show the income and expenditure account for the year ending 31/12/2015. (27)
- (c) Distinguish between 'levy' and 'life membership'. Explain how both are treated in the accounts. (8)

(60 marks)

4. Incomplete Records

On 01/01/2015 H. O'Neill lodged €560,000 to a business bank account and on the same day purchased a business for €490,000, consisting of the following tangible assets and liabilities: buildings €450,000, stock €15,700, three months rates prepaid €2,400, debtors €26,600, wages due €4,800 and trade creditors €51,000.

During 2015 O'Neill did not keep a full set of books but was able to supply the following additional information on 31/12/2015:

- (i) Each week O'Neill took from stock, goods costing €190 and issued a cheque each week for €150 to pay household expenses.
- (ii) On 01/10/2015 O'Neill borrowed €350,000, part of which was used to purchase an adjoining premises costing €295,000. It was agreed that interest would be paid on the last day of each month at the rate of 6% per annum.
The capital sum was to be repaid in one lump sum in the year 2021. To provide for this the bank was instructed to transfer €5,200 on the last day of every month from O'Neill's business account into an investment fund.
- (iii) During the year O'Neill made lodgements to the business bank account as follows:
€145,000 from the cash register;
€4,200 dividends.
- (iv) O'Neill also made the following payments by cheque: light and heat €9,200, interest €3,500, wages and general expenses €94,000, equipment €16,000, rates for twelve months €10,800 and diesel for private car €4,600.
- (v) O'Neill estimated that 30% of the following: equipment, light and heat for the year and loan interest for the year should be attributed to the private section of the premises.
- (vi) Included in the assets and liabilities of the firm on 31/12/2015 were stock €17,300, debtors €37,300, trade creditors €44,600, electricity due €760 and €39 interest earned by the investment fund to date.

Required:

- (a) Prepare a Statement/Balance Sheet showing O'Neill's profit or loss for the year ended 31/12/2015. **(Show your workings.)** (52)
- (b) What advice would you give O'Neill in relation to record keeping? (8)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Doherty Ltd, a service provider in the tourist industry, for the year ended 31/12/2015. The company has an authorised capital of €900,000 made up of 600,000 ordinary shares at €1 each and 300,000 5% preference shares at €1 each. Doherty Ltd has already issued 500,000 ordinary shares and all of the 5% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2015		
	€	€
Sales		980,000
Opening stock	55,000	
Closing stock	65,000	
Costs of goods sold		(752,000)
Operating expenses for year		(83,000)
Interest for year		(12,000)
Net Profit for year		133,000
Dividends paid		(50,000)
Retained profit		83,000
Profit and loss balance 01/01/2015		45,000
Profit and loss balance 31/12/2015		128,000

Ratios and information for year ended 31/12/2014		
Earnings per ordinary share		13.2c
Dividend per ordinary share		6c
Interest cover		6 times
Quick ratio		1.2:1
Market value of one ord. share		€1.15
Return on capital employed		10.3%
Gearing		54%
Dividend cover		2.2 times
Dividend yield		5.22 %

Balance Sheet as at 31/12/2015		
	€	€
Fixed Assets		856,000
Investments (market value 31/12/2015 €200,000)		150,000
		1,006,000
Current Assets (including stock €65,000 and debtors €95,000)	212,000	
Less Creditors: amounts falling due within 1 year		
Trade creditors	(90,000)	122,000
		1,128,000
Financed by:		
6% Debentures (2017 Secured)		200,000
Capital and Reserves		
Ordinary shares @ €1 each	500,000	
5% Preference shares @ €1 each	300,000	
Profit and loss balance	128,000	928,000
		1,128,000

Market value of one ordinary share on 31/12/2015 is €1.25

You are required to calculate the following for 2015: (where appropriate calculations should be made to **two** decimal places).

- (a) (i) Cash purchases if the period of credit received from trade creditors is 2 months.
(ii) Dividend yield.
(iii) Price earnings ratio
(iv) Return on capital employed.
(v) Dividend cover. (50)
- (b) Would you as a shareholder be prepared to purchase more shares in Doherty Ltd? Use relevant ratios and other information to support your answer. (35)
- (c) (i) Explain the term 'Gearing'.
(ii) What are the benefits to a business of having a low gearing?
(iii) State **two** ways to reduce the gearing of a company. (15)

(100 marks)

6. Correction of errors and suspense account

The trial balance of D. Sexton Ltd, a furniture retailer, failed to agree on 31/12/2015. The difference was entered into a suspense account and the following balance sheet was prepared.

Balance Sheet as at 31/12/2015			
Fixed Assets	€	€	€
	Cost	Dep. To date	Net
Premises	630,000		630,000
Equipment	56,000	12,000	44,000
Motor vehicles	<u>92,000</u>	<u>26,000</u>	<u>66,000</u>
	<u>778,000</u>	<u>38,000</u>	740,000
Current Assets			
Stock (including suspense)		98,000	
Debtors		41,600	
Cash		<u>2,400</u>	
		142,000	
Less: Creditors: amounts falling due within 1 year			
Creditors	72,000		
Bank	<u>22,000</u>	<u>(94,000)</u>	<u>48,000</u>
			<u>788,000</u>
Financed by:			
Issued – 700,000 ordinary shares @ €1 each		700,000	
Profit and loss balance		<u>88,000</u>	<u>788,000</u>
			<u>788,000</u>

On checking the books, the following errors and omissions were discovered:

- (i) Coffee tables purchased on credit for €2,800, had been entered on the incorrect side of the creditor's account and credited as €1,800 to the equipment account.
- (ii) A delivery van which cost €2,400 and with a book value of €1,500 was sold for cash €1,350. This had been entered as €1,530 on the debit side of the sales account and on the credit side of the debtor's account.
- (iii) Insurance due €340 and rent prepaid to Sexton €460 were not recorded in the books.
- (iv) A credit note sent to a debtor for €620 had been entered in the day books as €260 and was subsequently posted to the incorrect side of the relevant ledger accounts.
- (v) Sexton returned furniture previously purchased on credit for €27,000. This was entered in the accounts as €37,000. However, a credit note subsequently arrived from the supplier showing a transport charge of €500. The only entry made in respect of this credit note is a credit entry of €26,500 in the creditor's account.

Required:

- (a) Journalise the necessary corrections. (54)
- (b) Show the suspense account. (6)
- (c) Prepare a statement showing the corrected net profit. (14)
- (d) Prepare a corrected balance sheet. (20)
- (e) Explain:
 - (i) Compensating errors.
 - (ii) Errors of original entry. (6)

(100 Marks)

7. Published Accounts

Atkinson plc has an authorised share capital of €900,000 divided into 600,000 ordinary shares at €1 each and 300,000 8% preference shares at €1 each. The following trial balance was extracted from the books at 31/12/2015.

	€	€
Vehicles at cost	290,000	
Vehicles - accumulated depreciation on 01/01/2015		104,000
6% Investments	250,000	
Buildings at cost	700,000	
Buildings - accumulated depreciation on 01/01/2015		121,300
Investment income		5,400
Debtors and creditors	129,000	94,000
Stock 01/01/2015	91,000	
Patent 01/01/2015	33,000	
Administrative expenses	203,000	
Distribution costs	121,000	
Purchases and sales	1,165,000	1,799,700
Rental income		46,000
Profit on the sale of land		35,000
Dividends paid	43,000	
Bank	90,000	
VAT		21,300
Profit and loss account at 01/01/2015		72,000
Issued capital		
Ordinary shares		480,000
8% Preference shares		120,000
Provision for bad debts		15,500
7% Debentures 2018/2019		200,000
Discount		13,000
Debenture interest paid	<u>12,200</u>	
	<u>3,127,200</u>	<u>3,127,200</u>

The following information is relevant:

- (i) Stock on 31/12/2015 is €76,000.
- (ii) The patent was acquired on 01/01/2011 for €77,000. It is being amortised over 7 years in equal instalments. This amortisation is to be included in cost of sales.
- (iii) Provide for debenture interest due, investment income due, auditors' fees €18,000, directors' fees €26,000 and corporation tax €56,000.
- (iv) Included in administrative expenses is the receipt of €8,250 for rental income.
- (v) During the year, land adjacent to the company's premises, which had cost €85,000 was sold for €120,000. At the end of the year the company revalued its buildings to €800,000 and wishes to incorporate this value in this year's accounts.
- (vi) Provide for depreciation: Buildings 2% straight line.
Vehicles 20% of cost.
- (vii) A former employee has made a claim of €60,000 for unfair dismissal. The company's legal advisers have advised that the company will probably be liable for the full amount.

Required:

- (a) Prepare the published profit and loss account for the year ended 31/12/2015 and a balance sheet as at that date in accordance with the Companies Acts and appropriate accounting standards showing the following notes:
 1. Accounting policy note for tangible fixed assets and stock
 2. Operating profit
 3. Dividends
 4. Tangible fixed assets
 5. Contingent liability. (88)
- (b)
 - (i) Explain why it is important that financial statements are properly regulated.
 - (ii) How does the European Union regulate the presentation of accounts? (12)

(100 marks)

SECTION 3 (80 marks)Answer **ONE** question**8. Overhead Apportionment/Job Costing**

Moran Ltd has two production departments, 1 and 2 and two ancillary Service Departments, A and B. The following costs relate to 2016.

	Total	Production 1	Production 2	Service A	Service B
	€	€	€	€	€
Indirect materials	380,000	245,000	135,000	-----	-----
Indirect labour	400,000	280,000	120,000		
Machine maintenance	12,000				
Depreciation on factory buildings	30,000				
Factory light and heat	18,000				
Factory cleaning	8,000				
Factory canteen	5,600				

The following information relates to the production and service departments:

	Total	Production 1	Production 2	Service A	Service B
Volume in cubic metres	6,000	3,000	1,500	1,000	500
Floor area in square metres	1,000	400	300	200	100
Number of employees	490	280	140	70	-----
Book value of buildings	600,000	300,000	150,000	100,000	50,000
Machine hours	50,000	30,000	20,000	-----	-----
Labour hours	60,000	15,000	45,000	-----	-----

Service departments are to be transferred to the Production Departments on the following percentage basis:

	Production 1	Production 2
Service A	70%	30%
Service B	60%	40%

Job No. 650 has just been completed, the details are:

	Direct Materials	Direct Labour	Machine Hours	Labour Hours
	€	€		
Production 1	7,500	4,000	120	50
Production 2	2,800	3,900	80	100

The company budgets for a profit margin of 20%.

Required:

- (a) Calculate the overhead to be absorbed by each department showing clearly the basis of apportionment used.
- (b) Transfer the service department costs to production departments 1 and 2.
- (c) Calculate a suitable overhead absorption rate for each department.
- (d) Compute the selling price of Job No. 650.
- (e)
 - (i) Explain what is meant by reapportionment of overheads.
 - (ii) Name **three** overhead absorption rates and state why they are based on budgeted figures.

(80 Marks)

9. Cash Budgeting

Irwin Ltd is planning to set up a business on 01/07/2016 and has made the following forecast for the first six months of trading:

Sales Budget

	July	August	September	October	November	December
Sales units	9,000	9,750	11,000	12,000	12,500	12,800
Sales revenue	€270,000	€292,500	€330,000	€360,000	€375,000	€384,000

- (i) Each product unit requires 3kg of material X, which costs €4 per kg.
- (ii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.
- (iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs are held at the end of each month.
- (iv) The cash collection pattern from sales is expected to be:
 - Cash Customers** 30% of sales revenue will be for immediate cash.
 - Credit Customers** 70% of sales revenue will be from credit customers. These debtors will pay their bills 50% in the month after sale and the remainder in the second month after sale.
- (v) One month's credit is received from suppliers.
- (vi) Expenses of the business will be settled as follows:

Expected Costs Wages €10,000 plus 5% of sales revenue per month, payable as incurred.
 Variable overheads €4 per unit, payable as incurred.
 Fixed overheads (including depreciation) €28,000 per month, payable as incurred.

Capital Costs Equipment will be purchased on 1 July costing €60,000 which will have a useful life of 5 years.

To finance this purchase a loan of €48,000 will be secured at 10% per annum. This loan and interest will be repaid over 4 years. Monthly capital and interest payments will commence in August.

Required:

- (a) Prepare a production budget for the four months July to October 2016.
- (b) Prepare a raw materials purchases budget (in units and €) for the four months July to October 2016.
- (c) Prepare a cash budget for the four months July to October 2016.
- (d) Prepare a budgeted trading and profit and loss account for the four months ending 31/10/2016 (if the budgeted cost of a unit of finished goods is €20).
- (e)
 - (i) What recommendations would you make to Irwin Ltd based on the budgets you have prepared?
 - (ii) Outline the factors which Irwin Ltd should take into account when estimating future sales figures.

(80 marks)

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