# Coimisiún na Scrúduithe Stáit
# State Examinations Commission

**LEAVING CERTIFICATE EXAMINATION 2022**

## ACCOUNTING - HIGHER LEVEL

**(300 marks)**

WEDNESDAY 22 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 **(A or B)** carries 120 marks and the remaining three questions carry 60 marks each.<br>Candidates should answer either **QUESTION 1 (A or B) only** OR answer any **TWO** of the remaining three questions in this section. |

| **Section 2**: **Financial Accounting** (100 marks). |
|---|
| This section has three questions (Numbers 5 - 7). Each question carries 100 marks.<br>Candidates should answer **ONE** of these questions. |

| **Section 3**: **Management Accounting** (80 marks). |
|---|
| This section has two questions (Numbers 8 and 9). Each question carries 80 marks.<br>Candidates should answer **ONE** of these questions. |

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

**SECTION 1 (120 marks)**
Answer **Question 1** (A or B) OR any **TWO** other questions

**1. Answer (A) <u>OR</u> (B)**

**(A) Company Final Accounts including a Manufacturing Account**

McGuigan Ltd has an authorised capital of €2,000,000 divided into 1,500,000 ordinary shares at €1 each and 500,000 4% preference shares at €1 each.
The following trial balance was extracted from the books on 31/12/2021:

| | € | € |
|---|---|---|
| Plant and machinery (cost €340,000) | 290,000 | |
| Factory buildings (cost €890,000) | 865,000 | |
| Hire of special equipment | 37,800 | |
| General factory overheads (including suspense) | 126,700 | |
| Stocks on hand 01/01/2021 | | |
| Raw materials | 27,300 | |
| Work in progress | 38,650 | |
| Finished goods | 38,400 | |
| Direct factory wages | 148,000 | |
| Purchase of raw materials | 760,400 | |
| Royalty payments | 29,600 | |
| Sale of scrap materials | | 18,950 |
| Selling expenses | 45,000 | |
| Administration expenses | 57,900 | |
| Sales | | 1,650,000 |
| Discount (net) | | 5,350 |
| Rent | | 15,700 |
| 4% Investments acquired on 01/04/2021 | 250,000 | |
| Investment interest received | | 2,800 |
| Profit and loss balance 01/01/2021 | | 69,500 |
| PAYE, PRSI & USC | | 1,850 |
| 8% Debentures (including €50,000 issued on 01/04/2021) | | 300,000 |
| Debenture interest paid | 5,000 | |
| Bad debt provision | | 3,050 |
| Dividends paid | 27,500 | |
| Bank | | 85,000 |
| Debtors and creditors | 76,350 | 61,400 |
| Issued share capital - ordinary shares | | 460,000 |
| 4% preference shares | | 150,000 |
| | 2,823,600 | 2,823,600 |

The following information and instructions are to be taken into account:

(i) Stocks on hand at 31/12/2021:

| | | |
|---|---|---|
| Raw materials | €28,300 |
| Work in progress | €27,600 |
| Finished goods | €58,000 |

(ii) No entry has been made in the books for sale of goods to a debtor on 31/12/2021. An invoice had been sent for €10,800, which included a mark-up on cost of 20%. The goods were not dispatched until 02/01/2022 and were included in closing stock.

(iii) Included in the figure for sale of scrap materials is €7,000 received from the sale of an old machine on 31/03/2021. This machine had cost €30,000 on 01/09/2016.

(iv) Plant and Machinery is to be depreciated at a rate of 15% of cost from the date of purchase to the date of sale.

(v) The suspense figure arises as a result of discount received €1,400 entered only in the discount account and credit purchases of raw materials €11,000 which were entered only in the creditors account.

(vi) Provide for a recent wage increase of 2% to be backdated to cover the three months from 01/10/2021.

(vii) During 2021 a store was built by the firm's own employees. The cost of their labour €60,000 (before wage increase) had been treated as a business expense and the materials costing €62,000 were taken from the firm's stocks. The building work commenced on 01/01/2021 and took 12 months to complete. No entry had been made in the books for the store.

(viii) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2021 shows an overdraft of €76,200. A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A credit transfer for €3,500 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 70c for every €1 owed.
2. A cheque for €6,300 received from a debtor had been entered in the books (cash book and ledger) as €5,700.
3. A cheque for fees of €4,700 issued to a creditor had not been presented for payment by 31/12/2021.

(ix) Provision should be made for the following:

1. Investment income due and debenture interest due.
2. Provision for bad debts to be adjusted to 4% of debtors.
3. Depreciation on buildings at a rate of 2% of cost per annum.

**Required**:

**(a)** Prepare a manufacturing, trading and profit and loss account for the year ended 31/12/2021. (75)

**(b)** Prepare a balance sheet as at 31/12/2021. (45)

**(120 marks)**

**(B) Company Final Accounts**

McCormack Ltd, has an authorised capital of €2,500,000 divided into 1,500,000 ordinary shares at €1 each and 1,000,000 4% preference shares at €1 each. The following trial balance was extracted from the books on 31/12/2021:

| | € | € |
|---|---|---|
| Land and buildings (Land at cost €1,000,000) | 1,760,000 | |
| Office equipment (Cost €460,000) | 357,000 | |
| Profit and loss balance 01/01/2021 | | 127,000 |
| Discount | | 17,500 |
| Debenture interest paid | 7,500 | |
| 4% Investments 01/04/2021 | 75,000 | |
| Stock 01/01/2021 | 51,500 | |
| Patents | 64,000 | |
| Purchases and sales | 905,000 | 1,850,000 |
| Bad debt provision | | 7,000 |
| Debtors and creditors | 249,800 | 81,500 |
| Bank | | 68,300 |
| Wages and salaries | 196,700 | |
| 6% Debentures (including €60,000 issued on 01/06/2021) | | 360,000 |
| Dividends paid | 65,100 | |
| Directors fees | 91,000 | |
| VAT | 1,000 | |
| PAYE, PRSI, USC | | 27,700 |
| Sales commission | 32,000 | |
| Insurance | 25,000 | |
| Advertising | 8,400 | |
| Ordinary share capital | | 1,000,000 |
| 4% Preference share capital | | 350,000 |
| | 3,889,000 | 3,889,000 |

The following information and instructions are to be taken into account:

(i) Stock at cost on 31/12/2021 was €82,800. It was discovered that goods had been received from a creditor on 31/12/2021 on a 'sale or return' basis. These goods had been entered in the books as a credit purchase. The retail value of the goods was €9,250 which included a mark-up on cost of 25%.

(ii) Provide for depreciation on office equipment. A full year's depreciation is charged in the year of acquisition and none in the year of disposal. It is estimated that office equipment has a useful economic life of six years with a residual scrap value of 4% of original cost. **Note:** On 30/04/2021 equipment which cost €65,000 on 01/10/2017 was traded in against new equipment costing €45,000. An allowance of €23,000 was made on the old equipment. The bank transfer for the net amount of this transaction was entered correctly in the bank account but was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.

(iii) During the year a warehouse which cost €120,000 was destroyed by fire. The insurance company has agreed to contribute €115,000 in compensation.

(iv) Buildings are to be depreciated by 2% of cost per annum.

(v) The figure for bank in the trial balance has been taken from the firm's own records. However, a bank statement dated 31/12/2021 has arrived showing an overdraft of €48,950. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A cheque for fees of €4,950 issued to a director had not been presented for payment by 31/12/2021.
2. A cheque for €26,700 issued to a supplier had been entered in the books (cash book and ledger) as €27,600.
3. A credit transfer for €4,500 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c for every €1 owed.
4. A credit transfer for €9,000 had been received on 31/12/2021 from a debtor in respect of a debt previously written off as bad. This represents 75% of the original debt. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.

(vi) Patents, which incorporate 4 months investment income, are being written off over a five-year period which commenced in 2020.

(vii) The Directors recommend that:

1. Provision should be made for both investment income due and debenture interest due.
2. The managing director should be paid a bonus commission of 2% on all sales in excess of €1,500,000.
3. Provision for bad debts to be adjusted to 3% of debtors.
4. A transfer of €250,000 should be made from profit to the capital reserve.
5. Provision for corporation tax of €60,000 is to be recorded.

**Required**:

**(a)** Prepare a trading and profit and loss account for the year ended 31/12/2021. (75)

**(b)** Prepare a balance sheet as at 31/12/2021. (45)

**(120 marks)**

## 2. Cash Flow Statement

The following are the balance sheets of Puspure plc as at 31/12/2021 and 31/12/2020 together with an abridged profit and loss account for the year ended 31/12/2021.

| **Abridged Profit and Loss Account for the year ended 31/12/2021** | **€** |
|---|---|
| Operating Profit | 227,000 |
| Investment income for the year | 3,800 |
| Interest for the year | (12,000) |
| Profit before taxation | 218,800 |
| Taxation for the year | (66,000) |
| Profit after taxation | 152,800 |
| Dividends paid | (30,800) |
| Retained profit for the year | 122,000 |
| Retained profit on 01/01/2021 | 268,650 |
| Retained profit on 31/12/2021 | 390,650 |

| **Balance Sheets as at** | **31/12/2021** | | **31/12/2020** | |
|---|---|---|---|---|
| **Financial Assets** | € | € | € | € |
| Investments at cost | | 165,000 | | 185,000 |
| **Fixed Assets** | | | | |
| Land and buildings at cost | 850,000 | | 732,000 | |
| Less accumulated depreciation | (75,000) | 775,000 | (60,000) | 672,000 |
| Machinery at cost | 397,000 | | 438,000 | |
| Less accumulated depreciation | (209,000) | 188,000 | (187,600) | 250,400 |
| | | 1,128,000 | | 1,107,400 |
| **Current Assets** | | | | |
| Stock | 214,600 | | 178,600 | |
| Debtors | 185,200 | | 171,800 | |
| Bank | 14,000 | | - | |
| Investment income due | 1,050 | | 950 | |
| Government securities | 35,000 | | 10,000 | |
| | 449,850 | | 361,350 | |
| **Less Creditors: Amounts falling due within 1 year** | | | | |
| Trade creditors | 250,600 | | 241,600 | |
| Debenture interest due | 2,600 | | 2,000 | |
| Bank | - | | 8,500 | |
| Corporation tax | 52,000 | | 48,000 | |
| | 305,200 | 144,650 | 300,100 | 61,250 |
| | | 1,272,650 | | 1,168,650 |
| **Financed by:** | | | | |
| **Creditors: Amounts falling due after 1 year** | | | | |
| 6% Debentures | | 100,000 | | 200,000 |
| **Capital and Reserves** | | | | |
| Ordinary shares @ €1 each | 770,000 | | 700,000 | |
| Share premium | 12,000 | | - | |
| Profit and loss account | 390,650 | 1,172,650 | 268,650 | 968,650 |
| | | 1,272,650 | | 1,168,650 |

The following information is also available:

(i) There were no disposals of buildings during the year but new buildings were acquired.

(ii) There were no purchases of machinery during the year. Machinery was disposed of for €33,000.

(iii) Depreciation charged for the year in arriving at operating profit included €30,400 on machinery.

**Required**:

**(a)** Prepare the cash flow statement of Puspure plc for the year ended 31/12/2021 including reconciliation statements. (52)

**(b)** (i) Financial Reporting Standard 1 requires companies to prepare a cash flow statement. What is a Financial Reporting Standard?

(ii) Distinguish between a cash gain and a non-cash gain for Puspure plc. Give one example of each from the financial statements of Puspure plc.

(8)

**(60 marks)**

## 3. Correction of Errors and Suspense Account

The trial balance of Fletcher Ltd, a sports clothing retailer, failed to agree on 31/12/2021. The difference was entered in a suspense account.

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

(i) Credit purchases by Fletcher for €2,400 from E Hegarty had been entered in the day books as €2,040 and was subsequently posted on the incorrect side of Hegarty's account as €4,020.

(ii) A private debt €750 owed by Fletcher had been offset in full settlement against a business debt €800 owed to Fletcher Ltd. No entry had been made in the books in respect of this transaction.

(iii) A payment of €1,000 was received from F Murtagh a former debtor, whose debt had previously been written off and wishes to trade with Fletcher Ltd again. This represents 80% of the original debt and Murtagh has undertaken to pay the remainder of the debt by February 2023. The only entry made in respect of this transaction was that the full amount written off was credited to the debtors account.

(iv) A credit note sent to K Mullan for €240 had been misread as a credit note received from A Keogh and recorded as such.

(v) Equipment which cost €8,400 and with a book value of €3,360 was sold for cash €3,300. This had been entered as €3,630 on the debit side of the sales account and on the credit side of a debtor's account.

**Required**:

**(a)** Journalise the necessary corrections. (40)

**(b)** Prepare a statement showing the corrected net profit if the original profit was €27,900. (12)

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

(ii) Outline different types of errors that may affect the balancing of the trial balance. (8)

**(60 marks)**

## 4. Revaluation of Fixed Assets

On 1 January 2007, Ryan Ltd purchased new property for €900,000 consisting of land €150,000 and buildings €750,000. The company depreciates buildings at the rate of 2% per annum using the straight-line method. Land is not depreciated. It is company policy to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.

The following details were taken from the company's books:

| | |
|---|---|
| Jan 1 2017 | Revalued property at €1,080,000. Of this revaluation, €210,000 was attributable to the land purchased on 01/01/2007. |
| Jan 1 2018 | Purchased a building for €250,000. Additionally, during 2018, €90,000 was paid to a building contractor for an extension to this building. The company's own employees also worked on the extension to this building. The employees' wages for the period of this work amounted to €30,000. |
| Jan 1 2019 | Sold for €235,000, land that had cost €150,000 and was subsequently revalued on 01/01/2017.<br>Ryan Ltd spent €14,000 in respect of repairs to the existing building's roof. |
| Jan 1 2020 | Revalued buildings owned at €1,426,000 (a 15% increase in respect of each building). |
| Jan 1 2021 | Sold for €980,000 the buildings owned on 01/01/2017. The remaining buildings were revalued at €475,000. |

**Required:**

**(a)** (i) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31/12/2017 to 31/12/2021.
(Bank account and profit and loss account are **not** required).

(ii) Show the relevant extract from the balance sheet as at 31/12/2021. (52)

**(b)** (i) Distinguish between the straight line method and reducing balance method of depreciation.
(ii) Why would a company choose one method of depreciation over another? (8)

**(60 marks)**

**SECTION 2 (100 marks)**
Answer any **ONE** question

## 5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Watson plc, a manufacturer of confectionary, for the year ended 31/12/2021. The company has an authorised capital of €1,100,000 made up of 500,000 ordinary shares at €1 each and 600,000 6% preference shares at €1 each.

| **Trading and Profit and Loss Account for year ended 31/12/2021** | |
|---|---|
| | € |
| Sales | 950,000 |
| Costs of goods sold | (682,000) |
| Operating expenses for year | (192,000) |
| Interest for year | (35,000) |
| Net profit for year | 41,000 |
| Dividends paid | (18,000) |
| Retained profit | 23,000 |
| Profit and loss balance 01/01/2021 | 78,000 |
| Profit and loss balance 31/12/2021 | 101,000 |

| **Ratios and information for year ended 31/12/2020** | |
|---|---|
| Earnings per ordinary share | 8.4c |
| Dividend per ordinary share | 2.0c |
| Interest cover | 1.9 times |
| Quick ratio | 2.3:1 |
| Market value of one ord. share | €1.48 |
| Return on capital employed | 4.56% |
| Gearing | 60% |
| Dividend cover | 4.2 times |
| Dividend yield | 1.35% |

| **Balance Sheet as at 31/12/2021** | | | |
|---|---|---|---|
| | € | € | € |
| **Fixed Assets**: | | | |
| Intangible | | 300,000 | |
| Tangible | | 487,000 | 787,000 |
| 4% Investments (market value 31/12/2021 €270,000) | | | 250,000 |
| | | | 1,037,000 |
| **Current Assets**: | | | |
| Closing stock | 15,000 | | |
| Debtors | 76,500 | | |
| Other current assets | 20,000 | 111,500 | |
| **Less Creditors: amounts falling due within 1 year** | | | |
| Trade creditors | 21,000 | | |
| Other Creditors | 11,500 | (32,500) | 79,000 |
| | | | 1,116,000 |
| **Financed by**: | | | |
| 7% Debentures (2028 secured) | | | 500,000 |
| **Capital and Reserves** | | | |
| Ordinary shares @ €1 each | | 365,000 | |
| 6% Preference shares @ €1 each | | 150,000 | |
| Profit and loss balance 31/12/2021 | | 101,000 | 616,000 |
| | | | 1,116,000 |

Market value of one ordinary share on 31/12/2021 is **€1.40**.

**(a)** **You are required to calculate the following for 2021**:
(where appropriate calculations should be made to **two** decimal places).

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

(ii) Price earnings ratio.

(iii) The return on shareholders' funds.

(iv) Dividend cover.

(v) Gearing.

(50)

**(b)** Advise the bank manager whether a loan of €500,000, on which a rate of 8% would be charged, should be granted to Watson plc. The loan is to finance the expansion of the business into the European market. Use relevant ratios, percentages and other information to support your answer.

(40)

**(c)** The gross profit percentage of Watson plc in 2020 was 36%.

(i) Calculate the gross profit percentage for Watson plc in 2021.

(ii) Give possible reasons for the change in gross profit percentage in 2021.

(iii) Outline how a company could improve their gross profit percentage.

(10)

**(100 marks)**

## 6 Incomplete Records

On 01/01/2021, M McSharry lodged €1,350,000 into a business bank account and on the same day purchased a business for €1,325,000 which included the following tangible assets and liabilities: Premises €800,000; Equipment €225,000; Stock €46,140; 3 months Rates Prepaid €8,100; Debtors €88,320; Trade Creditors €54,000; Wages Due €3,200 and 1.5% Investments €192,000.

During 2021 McSharry did not keep a full set of accounts but estimates that gross profit was 25% of sales. McSharry was able to supply the following information on 31/12/2021.

(i) Each week McSharry took goods from stock to the value of €120 and cash €250 for household expenses.

(ii) The following were lodged to the business bank account during the year**:** Investment interest of €2,400 (from the existing business investments) and private inheritance of €290,000.

(iii) On 01/07/2021 the business purchased an adjoining premises costing €180,000. To fund this purchase, on 01/07/2021 the business borrowed 80% of the cost of the premises.
It was agreed that, interest would be charged at a rate of 3% per annum to be paid monthly at the end of each month. The capital sum borrowed would be repaid in 20 equal instalments over 10 years. The first repayment was due on 01/01/2022.

(iv) The following payments from the business bank account were made during the year**:** Light and heat €5,460, wages and general expenses €165,750 (including €2,800 for insurance), delivery van €56,000, equipment (purchased on 01/07/2021) €60,000. Rates for 12 months €27,600, loan interest €2,000, cleaning expenses €4,000.

(v) McSharry estimated that 30% of insurance, 25% of cleaning expenses and 10% of light and heat should be attributed to private use.

(vi) Depreciation is provided for as follows;
- equipment at the annual rate of 12.5% of cost from the date of purchase to the date of sale.
- delivery van at 20% of cost for a full year.

(vii) The business has decided to set up a provision for bad debts amounting to 3% of debtors on 31/12/2021.

(viii) Included in the assets and liabilities of the firm on 31/12/2021 were bank €108,600, stock €85,122 (which includes a stock of heating oil €1,100), debtors €121,500, wages due €4,750, trade creditors €57,800 and electricity due €240.

**Required:**

| | | |
|---|---|---|
| **(a)** | Prepare, with workings, a statement/balance sheet showing McSharry's profit or loss for the year ended 31/12/2021. | (40) |
| **(b)** | Prepare a trading, profit and loss account, in as much detail as possible, for the year ended 31/12/2021. | (50) |
| **(c)** | There are four fundamental accounting concepts applied in the preparation of accounts.<br>Explain two fundamental accounting concepts, with reference to how they apply to the accounts of McSharry. | (10) |
| | | **(100 marks)** |

## 7. Club Accounts

Included in the assets and liabilities of Abbey Hockey Club on 01/01/2021 were the following:

Clubhouse and Astroturf at cost €950,000, bar stock €1,820, equipment at cost €42,000, bar debtors €560, life membership €48,000, bar creditors €700, wages due €440, levy reserve fund €50,000, subscriptions received in advance €1,000, investment interest receivable due €420.

**All fixed assets already have 3 year's depreciation accumulated at 01/01/2021**

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2021.

**Receipts and Payments account for the year ended 31/12/2021**

| Receipts | € | Payments | € |
|---|---|---|---|
| Balance 01/01/2021 | 9,800 | Catering purchases | 93,100 |
| Subscriptions | 425,500 | Bank loan and 9 months' interest at 8% per annum on 30/06/2021 | 273,480 |
| 10 months Interest on 5% investments, up to 30/06/2021 | 1,050 | Sundry expenses | 64,360 |
| Competition fees | 22,400 | Bar purchases | 43,800 |
| Catering receipts | 122,500 | Competition prizes | 18,900 |
| Sale of Equipment (cost €30,000) | 7,000 | Purchase of Equipment | 47,000 |
| National Lottery grant | 120,000 | Coaching expenses and wages | 15,540 |
| Hockey Ireland grant | 13,500 | | |
| Bar receipts | 73,600 | | |
| | | Balance 31/12/2021 | 239,170 |
| | 795,350 | | 795,350 |
| | | | |

You are given the following additional information and instructions:

(i) Bar stock (including catering stock €11,460) on 31/12/2021 was €21,700.

(ii) Bar debtors and bar creditors on 31/12/2021 were €780 and €1,100 respectively.

(iii) Provide for depreciation on equipment at 12.5% of cost. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

(iv) Clubhouse and Astroturf pitch are to be depreciated by 2% of cost.

(v) The club has decided that life membership is to be credited to income over a 10-year period which commenced in 2019.

(vi) The grant from the National Lottery was received on a once-off basis. It is to be treated as a capital item.
The grant from Hockey Ireland is received on an annual basis to support the day-to-day activities of the club. It is to be treated as a revenue item.

(vii) The wages due on 01/01/2021 were owed to the club coach for two weeks. Provide for three week's wages due on 31/12/2021 and include a bonus of €30 for each of the three weeks.

(viii) Subscriptions include:

1. Subscriptions for 2022 amounting to €3,160.
2. Levy for 2021 of €100 each on all 650 members.
3. Levy for 2020 of €100 each due from 30 members.

**Required**:

**(a)** Show the club's accumulated fund (capital) on 01/01/2021. (30)

**(b)** Show the income and expenditure account for the year ending 31/12/2021. (35)

**(c)** Show the club's balance sheet as at 31/12/2021. (25)

**(d)** (i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.

(ii) There is a proposal to reduce annual subscriptions by 10% for the next three years. As Treasurer of Abbey Hockey Club, what points would you make in favour of this proposal?

(10)

**(100 Marks)**

**SECTION 3 (80 marks)**
Answer any **ONE** question

**8. Job Costing**

Hayes Ltd, trades as a manufacturing firm, and has four departments: Production 1 Production 2, Service A and Service B.

The following costs relate to 2022.

| | Total | Production 1 | Production 2 | Service A | Service B |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Indirect materials | 420,000 | 200,000 | 120,000 | 50,000 | 50,000 |
| Indirect labour | 625,000 | 300,000 | 250,000 | 45,000 | 30,000 |
| Factory canteen | 50,000 | | | | |
| Rent and rates | 64,000 | | | | |
| Light and heat | 75,000 | | | | |
| Machine maintenance | 28,000 | | | | |
| Plant depreciation | 81,000 | | | | |

The following information relates to the four departments

| | Total | Production 1 | Production 2 | Service A | Service B |
|---|---|---|---|---|---|
| Floor area in square metres | 40,000 | 20,000 | 16,000 | 2,000 | 2,000 |
| Volume in cubic metres | 48,000 | 24,000 | 16,000 | 6,000 | 2,000 |
| Book value of plant (€) | 264,000 | 110,000 | 88,000 | 33,000 | 33,000 |
| Number of employees | 120 | 60 | 42 | 15 | 3 |
| Machine hours | 84,000 | 48,000 | 36,000 | ------ | ------ |
| Labour Hours | 116,000 | 42,000 | 74,000 | ------ | ------ |

Service department costs are to be transferred to production departments on the following percentage basis:

| | Production 1 | Production 2 |
|---|---|---|
| Service A | 60% | 40% |
| Service B | 35% | 65% |

Job No. 310 has just been completed, the details are:

| | Direct Materials | Direct Labour | Machine Hours | Labour Hours |
|---|---|---|---|---|
| | € | € | | |
| Production 1 | 12,000 | 2,600 | 55 | 36 |
| Production 2 | 2,600 | 7,000 | 20 | 80 |

The company budgets for a profit margin of 25%.

**Required:**

**(a)** Calculate the overhead to be absorbed by each department stating 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)** Calculate the selling price for Job No. 310.

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

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

**(80 marks)**

**9. Budgeting**

Harrington Ltd has recently completed its annual sales forecast for the year ended 31/12/2023.
It expects to sell two products – Golden at €360 and Portland at €410.
All stocks are to be decreased by 10% from their opening levels by 31/12/2023 and are valued using the FIFO method.

| | **Golden** | **Portland** |
|---|---|---|
| Sales are expected to be: | 15,200 units | 8,400 units |

Stocks of finished goods on 01/01/2023 are expected to be:

| | |
|---|---|
| Golden | 900 units at €210 each |
| Portland | 750 units at €290 each |

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

| | **Golden** | **Portland** |
|---|---|---|
| Material A | 6 Kgs | 8 Kgs |
| Material B | 9 Kgs | 12 Kgs |
| Skilled Labour | 6 Hours | 9 Hours |

Stock of raw materials on 01/01/2023 are expected to be:

| | |
|---|---|
| Material A | 9,400 Kgs @ €5.00 per Kg |
| Material B | 6,800 Kgs @ €6.50 per Kg |

The expected prices for raw materials during 2023 are:

| | |
|---|---|
| Material A | €5.50 per Kg |
| Material B | €7.00 per Kg |

The skilled labour rate is expected to be €18.00 per hour.
Production overhead costs are expected to be:

| | | |
|---|---|---|
| Variable | €12.00 | per skilled labour hour |
| Fixed | €579,550 | per annum |

**Required:**

**(a)** Prepare a production budget (in units).

**(b)** Prepare a raw materials purchases budget (in kg and €).

**(c)** Prepare a production cost/manufacturing budget.

**(d)** Prepare a budgeted trading account. (You are required to calculate the unit cost of budgeted closing stock of both products).

**(e)** (i) Outline why budgetary control is necessary in an organisation.

(ii) In relation to budgets, explain what is meant by a favourable variance and give an example of how it might arise in the direct costs of a manufacturing firm.

**(80 marks)**

There is no examination material on this page

There is no examination material on this page