Coimisiún na Scrúduithe Stáit
State Examinations Commission

Scéimeanna Marcála	*Scrúduithe Ardteistiméireachta, 2003*
Cuntasaíocht	*Ardleibhéal & Gnáthleibheal*
Marking Scheme	*Leaving Certificate Examination, 2003*
Accounting	*Higher Level & Ordinary Level*

LEAVING CERTIFICATE ACCOUNTING

MARKING SCHEME FOR THE 2003 EXAMINATION

INTRODUCTION

The solutions and marking schemes for Accounting, Higher and Ordinary levels, are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in a circle like this ❻ alongside. These marks are then totalled for each section/page and shown in a square like this $\boxed{40}$.

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong 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 (eg 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 their calculation in Section (a) is incorrect, but this inaccurate information is used in the answer to Section (b), examiners give credit for analysis/decisions correctly made by the candidate on the basis of the incorrect data in this section. In this way, candidates are not penalised twice for the same error.

Accounting – Higher Level 2003

QUESTION 1

(a) 75

Trading , Profit and Loss Account the year ended 31/12/2002

		€	€	€
Sales				982,000 ❷
Less Cost of sales				
Stock 1/1/2002			67,700 ❷	
Add Purchases	W 1		640,000 ❻	
			707,700	
Less Stock 31/12/2002	W 2		(69,800) ❻	(637,900)
Gross profit				344,100
Less Expenses				
Administration				
Salaries and general expenses		194,100 ❷		
Patents written off	W 3	12,000 ❻		
Insurance	W 4	9,650 ❽		
Depreciation - buildings	W 5	19,000 ❸	234,750	
Selling and Distribution				
Loss on sale of delivery van	W 7	4,150 ❻		
Commission		24,000 ❷		
Depreciation- delivery vans	W 6	23,175 ❺	51,325	(286,075)
				58,025
Add Operating income				
Reduction in provision for bad debts	W 8			696 ❹
Rent				15,000 ❷
Discount	W 9			5,300 ❺
Operating profit				79,021
Investment income				10,500 ❸
				89,521
Mortgage interest	W 10			(22,500) ❻
Net profit for year				**67,021** ❼

(b)

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Balance Sheet as at 31 December 2002

		Cost	Accumulated Depreciation	Net	Total
Intangible Fixed Assets		€	€	€	€
Patents (€60,000 - €12,000)					48,000 ❹
Tangible Fixed Assets					
Buildings	W 11	1,100,000❷		1,100,000	
Delivery vans		156,000❷	74,825❸	81,175	
		1,256,000	74,825	1,181,175	1,181,175
Financial Assets					
Investments					200,000 ❷
					1,429,175
Current assets					
Stock				69,800❷	
VAT	W 12			24,500❺	
Investment income due				6,000❸	
Debtors			77,600❷		
Less provision			3,104❶	74,496	
				174,796	
Creditors: amounts falling due within one year					
Creditors			86,500❷		
Mortgage interest due			18,750❸		
PRSI			2,300❷		
Bank			70,900❷	(178,450)	(3,654)
					1,425,521
Financed by					
Creditors: amounts falling due after more than one year					
9% Fixed mortgage					500,000 ❷
Capital and reserves					
Capital 1/1/2002				680,000❶	
Add Net profit				67,021❶	
				747,021	
Less Drawings				37,500❷	
				709,521	
Revaluation reserve	W 13			216,000❹	925,521
Capital employed					1,425,521

QUESTION 1 - *Workings*

1.	**Purchases**	668,000	
	Less Payment for van	(28,000)	640,000
2.	**Closing stock**	74,500	
	Less valueless stock	(4,700)	69,800
3.	**Patents**		
	(€55,500 + €4,500) ÷ 5		12,000
4.	**Insurance**	8,700	
	Add Mortgage interest	250	
	Add Discount received	700	9,650
5.	**Depreciation -buildings**		
	2 % of €950,000		19,000
6.	**Depreciation - delivery vans**		
	(€22,500 + €675) (€5,625 + €17,550) (€16,200 + €1,575 + €5,400)		23,175
7	**Loss on sale of van**		
	(€42,000 - €17,850 - €20,000)		4,150 loss
	Provision for Depreciation - vans		
	(€69,500 - €17,850 + €23,175)		74,825
8.	**Provision for bad debts**		
	(€3,800 - €3,104)		696cr
9	**Discount**	4,600	
	Add Unrecorded Discount	700	5,300
10.	**Mortgage interest**	4,000	
	Less Suspense	(250)	
	Add Interest due	18,750	22,500
11.	**Buildings**	980,000	
	Less VAT	(30,000)	
	Add Revaluation	150,000	1,100,000
12.	**VAT account**	5,500	
	Less VAT on buildings	(30,000)	24,500
13	**Revaluation reserve**		
	Land and buildings	150,000	
	Provision for depreciation (47,000 + 19,000)	66,000	216,000

QUESTION 2 – Published Accounts

(a) 38

Profit and Loss Account of North Plc for the year ended 31/12/2002

		Notes		€
Turnover				1,105,000 ❶
Cost of Sales (75,000 + 696,000 - 77,000 + 8000)		1		702,000 ❼
Gross profit				403,000
Distribution costs	W 1		50,000 ❷	
Administrative expenses	W 2		313,200 ❼	363,200
				39,800
Other operating income				
Discount				6,160 ❶
Operating profit		2		45,960
Profit on sale of land				85,000 ❷
Investment income				10,800 ❸
				141,760
Interest payable		3		16,000 ❸
Profit on ordinary activities before taxation ❶				125,760
Taxation				33,000 ❶
Profit after taxation				92,760
Dividends paid		4	27,000 ❷	
Dividends proposed		4	41,000 ❸	68,000
Profit retained for year				24,760
Profit brought forward at 1/1/2002				73,700 ❶
Profit carried forward at 31/12/2002				98,460 ❹

Notes to the Accounts

1. **Accounting policy notes** ❸

   Tangible Fixed Assets

   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% per annum -straight line basis.

   Delivery vans - 20% of cost

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

2. **Dividends** ❹

Ordinary dividends		
Interim paid 6.0c per share	21,000	
Final proposed 10.0c per share	35,000	56,000
Preference dividends		
Interim paid 4.0c per share	6,000	
Final proposed 4.0c per share	6,000	12,000

3. **Interest payable**: ❶

Interest payable on debentures repayable during years 2008/2009	16,000

4. **Operating profit** ❸
   The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	41,500
Patent amortised	8,000
Directors remuneration	84,000
Auditors Fees	7,700

5. **Profit on sale of property** ❶
   The company sold land for €85,000 greater than it cost. Cost was €90,000

Workings

1. **Distribution costs**

Advertising	21,000	
Depreciation - delivery vans	29,000	50,000

2. **Administrative expenses**

Directors fees	84,000	
Salaries and general expenses	177,000	
Rent	32,000	
Auditors fees	7,700	
Depreciation - buildings	12,500	313,200

(b) $\boxed{10}$

Agencies

The Government – Legislation
The European Union – directives
The Accountancy profession – FRS's and SSAP's
The Stock Exchange – Listing Rules

QUESTION 3 – Control Accounts

(a) 35

Adjusted Debtors Ledger Control Account

		€			€
Balance b/d		33,444❶	Balance b/d		633 ❸
Dishonoured cheque	(a)	880❻	Sales overstated	(c)	180 ❻
Interest	(e)	20❻	Credit note	(d)	566 ❻
Restocking charge	(f)	24❻	Balance c/d		33,622
Balance c/d		633❶			
		35,001			35,001
Balance b/d		33,622	Balance b/d		633

(b) 25

Schedule of Debtors Account Balances

				€
Balance as per List of Debtors				27,619 ❺
Add	Dishonoured cheque	(a)	880 ❸	
	Sales - cash and credit error	(b)	3,400 ❺	
	Sales	(c)	1,680 ❸	
	Interest	(e)	48 ❷	6,008
				33,627
Deduct	Credit note	(d)	622 ❷	
	Reduction in restocking charge	(f)	16 ❸	638
Net balance as per adjusted control account				32,989 ❷

QUESTION 4 – Revaluation of Fixed Assets

(a)

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Land and Buildings Account

		€			€
1/1/98	Balance b/d	630,000❷			
1/1/98	Revaluation Res.	120,000❷	31/12/98	Balance c/d	750,000
		750,000			750,000
1/1/99	Balance b/d	750,000	01/01/99	Disposal	250,000 ❶
			31/12/99	Balance c/d	500,000
		750,000			750,000
1/1/00	Balance b/d	500,000❶	31/12/00	Balance c/d	950,000
	Bank	340,000❷			
	Bank	80,000❷			
	Wages	30,000❷			
		950,000			950,000
1/1/01	Balance b/d	950,000	31/12/01	Balance c/d	1,045,000
1/1/01	Revaluation Reserve	95,000❷			
		1,045,000			1,045,000
1/1/02	Balance b/d	1,045,000	01/01/02	Disposal	550,000❸
1/1/02	Revaluation Reserve	125,000❸	31/12/02	Balance c/d	620,000
		1,170,000			1,170,000

Provision for Depreciation on Buildings Account

		€			€
1/1/98	Revaluation Res.	84,000❷	1/1/98	Balance b/d	84,000 ❹
31/12/98	Balance c/d	10,000	31/12/98	Profit and Loss	10,000 ❷
		94,000			94,000
31/12/99	Balance c/d	20,000	1/1/99	Balance b/d	10,000
			31/12/99	Profit and Loss	10,000 ❷
		20,000			20,000
31/12/00	Balance c/d	39,000	1/1/00	Balance b/d	20,000
			31/12/00	Profit and Loss	19,000 ❷
		39,000			39,000
1/1/01	Revaluation Res.	39,000❷	1/1/01	Balance c/d	39,000
31/12/01	Balance c/d	20,900	31/12/01	Profit and Loss	20,900 ❷
		59,900			59,900
1/1/02	Disposal	11,000❷	1/1/02	Balance b/d	20,900
1/1/02	Revaluation Res.	9,900❸	31/12/02	Profit and Loss	12,400 ❷
31/12/02	Balance c/d	12,400			
		33,300			33,300
			1/1/03	Balance b/d	12,400

QUESTION 4 – (continued)

Disposal of Land Account

		€			€
1/1/99	Buildings	250,000❶	1/1/99	Bank	320,000❶
31/12/99	P & L (Profit)	70,000❶			
		320,000			320,000

Disposal of Buildings Account

		€			€
1/1/02	Buildings	550,000❶	1/1/02	Depreciation	11,000❶
31/12/02	P & L (Profit)	51,000❶	1/1/02	Bank	590,000❶
		601,000			601,000

Revaluation Reserve Account

		€			€
1/1/98	Revenue reserve	40,000❶	1/1/98	Land and Buildings	120,000❶
1/1/02	Revenue reserve	244,000❶		Provision for Dep	84,000❶
			1/1/01	Land and Buildings	95,000❶
				Provision for Dep	39,000❶
			1/1/02	Land and Buildings	125,000❶
				Provision for Dep	9,900❶

Revenue Reserve Account

		€
1/1/98	Revenue reserve	40,000❶
1/1/02	Revenue reserve	244,000❶

QUESTION 5 – Interpretation of Accounts

(a) 50

Cash sales $\frac{\text{Debtors x 12}}{\text{Credit sales}} = 1$ Credit sales = $\frac{74{,}000 \times 12}{1}$

Credit sales = 888,000

Cash sales = 980,000 - 888,000 = **€92,000** 12

Earnings per share $\frac{\text{Net profit - Pref Div} \times 100}{\text{Number of ordinary shares}} = \frac{130{,}000 \times 100}{650{,}000}$ = **20c** 10

Market Price $\frac{\text{Market price}}{\text{Earnings per share}} = 11$

$\frac{x}{20} = 11$ = **220c** 8

Dividend cover $\frac{\text{Net profit after Pref Div}}{\text{Ordinary dividend}} = \frac{130{,}000}{55{,}000}$ = **2.4 times** 10

Dividend Yield $\frac{\text{Dividend per share} \times 100}{\text{Market price}} = \frac{8.46p \times 100}{220p}$ = **3.85%** 10

(b) 50

I would advise my friend to buy shares in O'Gara PLC Ltd for the following reasons:

Gearing 10

Gearing is 20.6% or 0.26 to 1. The company is low geared at 20.6% and interest cover is 15.3 times. Therefore there is little risk from outside investors. Last years gearing and interest cover were 35% and 9 times respectively. These figures indicate improved situations and that the company is less at risk and is better able to pay interest in 2002 than in 2001. The prospects of being able to pay dividends are good.

Dividends 10

Dividend per share is 8.46c. The dividend per share has increased from 6.5c since 2001.
The company's dividend cover is 2.4 times and dividend yield is 3.85%. The dividend policy is such that a shareholder can expect a decent amount of profits will be paid out each year and at the same time the long term prospects of capital gain is good. The real return to ordinary shareholders would be 9.1% based on available profits

Profitability ⑩
O'Gara PLC is a profitable firm because its return on capital employed of 15.8% and on equity funds of 16.9% indicate that the firm is earning much more (three times) than the return from risk free investments of about 4% to 6%. These are big increase from 14% and 7.6% respectively in 2001. The earnings per share has increased by 2c from 18c in 2001 to 20c in 2002.

Liquidity ⑩
O'Gara PLC has a liquidity problem. It would have difficulty paying its immediate debts. This difficulty has worsened since 2001 and is less able to pay its immediate debts in 2002 as indicated by the acid test ratio. This ratio has worsened from 0.75 in 2001 to 0.67 in 2002. This ratio indicate that O'Gara PLC has only 67c available to pay each €1 owed immediately. The company had 75c available in 2001.

Reserves ❺
The firm is retaining profits and building up reserves which augers well in the long-term and should bring about an increase in the market price of the share. Reserves have risen by €75,000 to €119,000 since 2001.

Market Price ❺
The share value has gone up by 30c to €2.20 since 2001 and is likely to continue in its upward movement based on current year performance.

Real value of fixed assets/ Security: The real value of fixed assets and intangible assets should be questioned. There are no write offs. Although there are intangible assets valued at €160,000 there is little risk to the company as this is only 20% of the tangible fixed and this ensures that there is adequate security for the loan.

Sector
The healthcare industry is a growth area and the sector has good prospects.

Price Earnings Ratio
The price earnings ratio is 11. This means that at the present rate of earnings it would take 11 years to earn back the price of a share.

Interest Cover
Interest Cover is 15.3 times and has improved from 9 times in 2001. There should be more profits available to the shareholders.

QUESTION 6 – Final Accounts of a Service Firm

(a) 20

Statement of Capital and Reserves on 1/1/2002

		€	€
Assets			
Buildings and grounds	(520,000 – 31,200)	488,800❷	
Equipment	(90,000 – 54,000)	36,000❷	
Furniture	(25,000 – 15,000)	10,000❷	
Investments		80,000❶	
Stock - Health food for resale		1,500❶	
Stock – oil		660❶	
Contract cleaning prepaid		300❶	
Cash at bank		7,560❶	624,820
Less Liabilities			
Creditors for supplies		1,450❶	
Customers' advance deposits		5,500❶	
Loan		60,000❷	
Interest on loan	(12 months @ €400 per month)	4,800❷	
Issued capital		320,000❶	391,750
Reserves			233,070 ❷

(b) 12

Health Shop Profit and Loss Account for year ended 31/12/2002

		€	€
Shop receipts - sales			67,000❷
Less Expenses			
Cost of goods sold -	(1,500 + 41,300 – 1,800)	41,000❺	
Light and heat		220❶	
Insurance		600❶	
Telephone		360❶	
Wages and Salaries	(60% of 16,000)	9,600❷	51,780
Contribution from health shop			15,220

(c) 36

Profit and Loss Account for year ended 31/12/2002

			€	€
Income				
Interest received			2,160❶	
Profit on health shop			15,220❶	
Customers' fees **W 1**			264,750❹	282,130
Less Expenses				
Wages and Salaries	(88,240 – 9,600)		78,640❷	
Insurance	(6,300 - 600)		5,700❶	
Light and heat		**W 2**	3,270❺	
Purchases - supplies		**W 3**	38,750❸	
Loan interest		**W 4**	2,000❸	
Laundry			4,100❶	
Postage and telephone			1,520❶	
Depreciation - Buildings		**W 5**	12,000❶	
- Equipment			21,200❶	
- Furniture			5,000❶	
Contract Cleaning		**W 6**	2,600❸	174,780
Net Profit for year				107,350 ❼
Add Reserve 1/1/2002				233,070 ❶
Profit and Loss balance 31/12/2002				340,420

(d)

Balance Sheet as at 31/12/2002

Fixed Assets		**Cost**	**Depreciation**	**Net**
		€	**€**	**€**
Buildings and Grounds		700,000❶		700,000
Equipment	(90,000 + 16,000)	106,000❷	75,200 ❷	30,800
Furniture		25,000❷	20,000 ❷	5,000
		692,000	107,600	735,800
Investments				80,000❷
				815,800
Current Assets				
Closing stock	- shop goods	1,800❷		
	- oil	360❷		
Cleaning prepaid		400❷		
Customers' fees due		650❷	3,210	
Less Creditors: amounts falling due within 1 year				
Bank overdraft		9,500 ❷		
Electricity due		290 ❷		
Customers' advance deposits		4,000 ❷		
Creditors for supplies		1,600 ❷	(15,390)	(12,180)
				803,620

Financed by

Share Capital and reserves		**Authorised**	**Issued**	
Ordinary shares		450,000 ❶	320,000❶	
Revaluation Reserve	(W 7)		143,200❸	
Profit and Loss Balance			340,420	803,620
				803,620

Workings

1	**Customers' fees** – amount received	262,600	
	Add advance deposits	5,500	
	Add fees due	650	
	Less fees prepaid 31/12/2002	(4,000)	264,750
2	**Light and heat** – amount paid	2,900	
	Add stock – heating oil 1/1/2002	660	
	Add electricity due 31/12/2002	290	
	Less stock – heating oil 1/1/2002	(360)	
	Less charge to shop	(220)	3,270
3	**Purchases** (38,600 + 1,600 - 1,450)		38,750
4	**Loan Interest** paid	6,800	
	Less interest due 1/1/2002 for 1 year @ €400 per month	4,800	2,000
5	**Depreciation** - Buildings & grounds 2% x (520,000+80,000)		12,000
	- Equipment 20% x (90,000 + 16,000)		21,200
	- Furniture 20% x (25,000)		5,000
6	**Contract Cleaning** – amount paid	2,700	
	Add amount prepaid 1/1/2002	300	
	Less amount 31/12/2002	(400)	2,600
7	**Revaluation Reserve**		
	Buildings (700,000 - 600,000 including extension)	100,000	
	Depreciation (31,200 + 12,000)	43,200	143,200

QUESTION 7 – Incomplete Records

(a) 50

Balance Sheet as at 31 December 2002

			€	€
Intangible Assets				
Goodwill				40,000 ❸
Fixed Assets				
Buildings	(290,000 + 250,000)		540,000❸	
Equipment			12,000❸	552,000
Financial Assets				
Investments				7,575 ❹
				599,575
Current Assets				
Stock at 31 December 2002		17,200❶		
Trade Debtors		34,300❶		
Bank		68,462❶		
Rates prepaid		2,700❹	122,662	
Less Creditors: amounts falling due within 1 year				
Creditors		29,900❶		
Interest due		1,500❸		
Electricity due		560❷	(31,960)	
Working Capital				90,702
				690,277
Financed by				
Creditors: amounts falling due after more than 1 year				
Loan				300,000❷
Capital - Balance at 1/1/2002			350,000❷	
Add Capital introduced			2,500❸	
Less Drawings	**W 10**		(23,215)❿	329,285
				629,285
Add Net Profit	**W 1**			60,992
Capital Employed				690,277❼

(b) 40

Trading and Profit and Loss Account for year ended 31 December 2002

		€	€
Sales	**W 3**		440,905❷
Less Cost of goods sold			
Stock at 1 January 2002		16,700 ❷	
Add Purchases (270,243 - 5,200)	**W 5**	265,043 ❷	
		281,743	
Less Stock 31 December 2002		(17,200) ❷	
Cost of sales	**W 4**		264,543❷
Gross Profit	**W 2**		176,362❷
Add Investment income			75❸
			176,437
Less Expenses			
Wages and general expenses	**W 6**	95,750❻	
Light and heat	**W 7**	5,820❻	
Rates	**W 8**	10,500❻	
Interest	**W 9**	3,375❻	115,445
Net Profit	**W 1**		60,992❶

QUESTION 7 – (continued)

(c) **10**

O'Higgins should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O'Higgins to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

Workings

				€	€
1	**Net profit for year (balancing figure in balance sheet)**				
	Total net assets			690,277	
	Less Loan			(300,000)	
	Less capital after drawings and before profit			(329,285)	60,992
2	**Gross profit**				
	Net profit + expenses - gains	=	(60,987 + 115,450 – 75)		176,362
3	**Sales**				
	Gross profit = 40% of sales	=	176,362 x 2.5		440,905
4	**Cost of sales**				
	Sales less gross profit	=	440,905 - 176,362		264,543
5	**Purchases**				
	Cost of sales + closing stock - opening stock		264,543 +17,200 – 16,700		265,043
6	**Wages and general expenses -** amount paid			98,000	
	Add college fees 30% of €4,500			1,350	
	Less wages due at 1/1/2002			(3,600)	95,750
7	**Light and heat** - amount paid			7,200	
	Add electricity due 31/12/2002			560	
	Less drawings			(1,940)	
	Profit and loss account				5,820
8	**Rates** - amount paid			10,800	
	Add rates prepaid 1/1/2002			2,400	
	Less rates prepaid 31/12/2002			(2,700)	
	Profit and loss account				10,500
9	**Interest -** amount paid			3,000	
	Add interest due			1,500	
	Less drawings			(1,125)	
	Profit and loss account				3,375
10	**Drawings**				
	College fees – family member			3,150	
	Equipment			4,000	
	Drawings of stock			5,200	
	Cash			7,800	
	Light and heat			1,940	
	Interest			1,125	23,215

QUESTION 8 - Costing

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(a)

Purchases In Units		**Cost Price** €	**Purchases at Cost**
4,200	@	€7	29,400
3,200	@	€7	22,400
2,700	@	€8	21,600
2,300	@	€9	20,700
12,400			**94,100**

Sales In Units		**Selling Price**	**Sales Value** €
2,400	@	€11	26,400
4,150	@	€12	49,800
3,900	@	€13	50,700
10,450			**126,900**

Closing Stock in units

Opening Stock	4,400
Add Purchases	12,400
	16,800
Less Sales	10,450
Closing stock	**6,350**

Closing Stock in €			€
2,300	@	€9	20,700
2,700	@	€8	21,600
1,350	@	€7	9,450
6,350			51,750 ⓯

Trading Account for year ending 31 December 2002

	€	€
Sales		126,900 ❸
Less cost of goods sold		
Opening stock	30,800 ❷	
Purchases	94,100 ❸	
	124,900	
Less Closing stock	51,750 ❸	73,150
Gross profit		53,750 ❹

(b) $\boxed{50}$

Calculation of Product Cost and Selling price

		€	€
Direct Materials			6,450.00 ❸
Direct wages:			
Department X	(90 hours @ €11)	990 ❸	
Department Y	(180 hours @ €12)	2,160 ❸	
Department Z	(50 hours @ €10)	500 ❸	3,650.00
Variable overheads			
Department X	(90 hours @ €18)	1,620.00 ❸	
Department Y	(180 hours @ €16)	2,880.00 ❸	
Department Z	(50 hours @ €20)	1,000.00 ❸	5,500.00
Fixed overheads			
Department X	(90 hours @ €8.50)	765 ❸	
Department Y	(180 hours @ €7.50)	1,350 ❸	
Department Z	(50 hours @ €4.00)	200 ❸	2,315.00
General Administration overhead (320 hours @ €4.50)			1,440.00 ❹
Total Cost	= 75% of selling price		19,355.00 ❷
Profit	= 25% of Selling Price		6,451.67
Selling Price	= 100%		25,806.67 ❷

To establish the selling price for the purpose of tendering ❼

To control costs - budget versus actual ❺
To help planning and decision making
To ascertain the value of closing stock in order to prepare final accounts

QUESTION 9

80

(i)	Direct materials	❶ Variable
	Direct wages	❶ Variable
	Production overheads	❷ Mixed
	Other overhead costs	❷ Mixed
	Administration expenses	❷ Fixed

(ii) Production overheads

	Units	Total cost
	€	€
High	17,000	110,000
Low	11,000	74,000
Difference	6,000	36,000

The variable cost of 6,000 units is €36,000, therefore the variable cost per unit is €6. ❻

	€	€	€	
	55%	**70%**	**85%**	
Total production overhead cost	74,000	92,000	110,000	
Variable cost (Units x €6)	66,000	84,000	102,000	
Therefore fixed cost	8,000	8,000	8,000	❻

(iii) Other overhead costs

	Units	Total cost
	€	€
High	17,000	54,000
Low	11,000	36,000
Difference	6,000	18,000

The variable cost of 6,000 units is €18,000, therefore the variable cost per unit is €3 ❻

	€	€	€	
	55%	**70%**	**85%**	
Total other overhead costs at	36,000	45,000	54,000	
Variable cost (Units x €3)	33,000	42,000	51,000	
Therefore, fixed cost	3,000	3,000	3,000	❻

Question 9 – (continued)

(iv) Production overheads at the required flexible budgeted level of 96% - (19,200 units)

	€	
Variable cost (19,200 units x €6)	115,200	
Fixed cost	8,000	
Total cost	123,200	*

Other overhead costs at the required flexible budgeted level of 96% - (19,200 units).

	€	
Variable cost (19,200 units x €3)	57,600	
Fixed cost	3,000	
Total cost	60,600	*

Construction of a flexible budget for a 96% activity level.

			Flexible Budget	
Activity level			**96%**	
Units			**19,200**	
			€	
Direct materials	(€13 x 19,200)		249,600	❸
Direct wages	(€9 x 19,2000)		172,800	❸
Production overheads	(€6 x 19,200)	+ 8,000	*123,200	❻
Administration overheads (fixed)			29,000	❷
Other overhead costs	(€3 x 19,200)	+ 3,000	*60,600	❻
Total cost (78% of sales)			635,200	

(v) Flexible Budget In Marginal Costing Format

	€	€
Sales		814,359❶
Less Variable costs		
Direct materials	249,600❶	
Direct wages	172,800❶	
Variable productions costs	115,200❶	
Other overhead costs	57,600❶	595,200
Contribution ❶		219,159
Less Fixed costs		
Production costs	8,000❶	
Selling and distribution costs	3,000❶	
Administration costs	29,000❶	40,000
Profit		179,159❸

(vi) Principal Budget Factor - Often referred to as the limiting budget factor or the key budget factor. ❼

This is the factor that limits output and therefore prevents continuous expansion. Usually the principal budget factor is sales demand. The principal budget factor could be some other limiting factor such as availability of materials

Why prepare a flexible budget and what does it show?
To compare budgeted costs and actual costs at the same level of activity ❻
To compare like with like
To help in controlling costs or to plan product levels

They show whether actual costs exceeded or were less than budgeted costs.(variances) ❸