# LEAVING CERTIFICATE ACCOUNTING

**MARKING SCHEME FOR THE 2005 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.

# Leaving Certificate Accounting – Higher Level 2005

**Question 1 – solution** **35**

**Manufacturing Account of James Ltd for the year ended 31/12/2004**

| | | | |
|---|---|---|---|
| | | **€** | **€** |
| Opening stock of raw materials | | | 48,000 ❶ |
| Purchases of raw materials | **W 1** | | 432,280 ❸ |
| Carriage in | | | 5,510 ❷ |
| | | | 485,790 |
| Less closing stock of raw materials | | | 51,000 ❶ |
| **Cost of raw materials consumed** | | | 434,790 |
| **Direct Costs:** | | | |
| Factory wages | **W 2** | 158,220 ❹ | |
| Hire of special equipment | | 12 000 ❷ | 170,220 |
| **Prime Costs** | | **605,010** | |
| **Factory Overheads**: | | | |
| General factory overheads | | 50,300 ❷ | |
| Depreciation on plant and machinery | **W 3** | 49,800 ❸ | |
| Depreciation on buildings | | 10,160 ❸ | |
| Loss on sale of machine | **W 4** | 1,500 ❹ | |
| | | | 111,760 |
| **Factory cost** | | | 716,770 |
| Work in progress 1/1/2004 | | | 24,150 ❷ |
| | | | 740,920 |
| Less Work in progress 31/12/2004 | | | (28,550) ❷ |
| | | | 712,370 |
| Less sale of scrap materials | **W 5** | | (3,700) ❹ |
| Cost of manufacture | | | 708,670 ❶ |
| Gross profit on manufacturer | | | 91,330 |
| Goods transferred from factory at CMV | | | 800,000 ❶ |

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**Trading and Profit and Loss Account for year ended 31/12/2004**

| | | | € |
|---|---|---|---|
| Sales | **W 6** | | 925,400 ❺ |
| Opening stock of finished goods | | 85,500 ❷ | |
| Goods transferred @ CMV | | 800,000 ❷ | |
| | | 885,500 | |
| Less closing stock of finished goods | **W 7** | 97,500 ❻ | |
| Cost of goods sold | | 788,000 | (788,000) |
| Gross profit on trading | | | 137,400 |
| Gross profit on manufacture | | | 91,330 |
| | | | 228,730 |
| **Less Expenses:** | | | |
| **Administration Expenses** | | | |
| Administration expenses | **W 8** | 22,900 ❻ | |
| **Selling and Distribution Expenses:** | | | |
| Selling expenses | | 68,420 ❷ | (91,320) |
| | | | 137,410 |
| Discount (net) | **W 9** | | 3,000 ❸ |
| Operating Profit | | | 140,410 |
| Less Debenture Interest | **W 10** | | ( 8,325) ❹ |
| **Net profit before taxation** | | | 132,085 |
| Less Taxation | | | (10,000) ❷ |
| **Profit after tax** | | | 122,085 |
| Less Preference dividend paid | | 8,000 ❶ | |
| Preference dividend due | | 8,000 ❶ | |
| Ordinary dividend paid | | 9,000 ❶ | |
| Ordinary dividend due | | 18,000 ❶ | |
| | | | (43,000) |
| Retained Profit | | | 79,085 |
| Profit and Loss Balance 1/1/2004 | | | 82,300 ❷ |
| **Profit and Loss Balance 31/12/2004** | | | 161,385 ❷ |

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## Balance Sheet of James Ltd as at 31/12/2004

| | | | | | |
|---|---|---|---|---|---|
| **Intangible Assets** | | | | | **€** |
| Patents | | | | | 70,000 ❷ |
| | | | **Accumulated** | | |
| **Tangible Assets;** | | **Cost** | **Depreciation** | **Net** | |
| | | **€** | **€** | **€** | |
| Factory Buildings | **W 11** | 508,000 ❷ | 55,160 ❷ | 452,840 | |
| Plant and Machinery | **W 3,12** | 238,000 ❷ | 135,100 ❸ | 102,900 | |
| | | 746,000 | 190,260 | 555,740 | 555,740 |
| | | | | | 625,740 |
| **Current Assets;** | | | | | |
| Stocks Raw materials | | | 51,000 ❷ | | |
| Work in progress | | | 28,550 ❷ | | |
| Finished goods | | | 97,500 ❷ | 177,050 | |
| Debtors | **W 13** | | | 84,800 ❺ | |
| | | | | 261,850 | |
| **Creditors: amounts falling due within 1 year:** | | | | | |
| Trade creditors | | | 57,700 ❷ | | |
| Bank | | | 11,450 ❷ | | |
| VAT | | | 12,730 ❷ | | |
| Dividends due | | | 26,000 ❹ | | |
| Taxation | | | 10,000 ❷ | | |
| Debenture interest due | | | 8,325 ❸ | | 126,205 |
| Net Current Assets | | | | | 135,645 |
| | | | | | **761,385** |
| **Financed By:** | | | | | |
| **Creditors: amounts falling due after more than1 year** | | | | | |
| 9% Debentures | | | | | 100,000 ❷ |
| **Capital and Reserves:** | | | Authorised | Issued | |
| Ordinary Shares at 1 each | | | 550,000 ❶ | 300,000 ❷ | |
| 8% Preference shares at 1 each | | | 250,000 ❶ | 200,000 ❷ | |
| | | | 800,000 | 500,000 | |
| Profit and Loss Balance 31/12/2004 | | | | 161,385 | |
| | | | | | 661,385 |
| | | | | | **761,385** |

**Workings - Question 1**

| | | | | |
|---|---|---|---|---|
| 1 | Purchases of Raw materials | 450,280 – 18,000 | = | 432,280 |
| 2 | Factory Wages | 198,220 - 40,000 | = | 158,220 |
| 3 | Depreciation on plant & machinery | 26,000 + 23,800 | = | 49,800 |
| | | 47,600 + 2,200 | = | 49,800 |
| | Accumulated Depreciation on plant | 104,000 – 18,700 + 49,800 | = | 135,100 |
| 4 | Loss on Disposal of machine | 22,000 – 18,700 – 1,800 | = | (1,500) |
| 5 | Sale of scrap materials | 5,500 – 1,800 | = | 3,700 |
| 6 | Sales | 935,000 – 9,600 | = | 925,400 |
| 7 | Closing stock of finished goods | 92,000 – 2,500 + 8,000 | = | 97,500 |
| 8 | Administration expenses | 23,900 – 1,000 | = | 22,900 |
| 9 | Discount | 4,000 – 1,000 | = | 3,000 |
| 10 | Debenture Interest | 6,300 + 2,025 | = | 8,325 |
| | Debenture Interest | 1,575 + 6,750 | = | 8,325 |
| 11 | Cost of Factory Buildings | 450,000 + 18,000 + 40,000 | = | 508,000 |
| 12 | Cost of plant and Machinery | 260,000 – 22,000 | = | 238,000 |
| 13 | Debtors | 94,400 – 9,600 | = | 84,800 |

**Question 2 - solution**

**(a)** 24

**Adjusted Creditors Control Account**

| | | € | | | | € | |
|---|---|---|---|---|---|---|---|
| Balance b/d | | 772 | ❷ | Balance b/d | | 62,125 | ❶ |
| Credit note | (ii) | 277 | ❺ | Interest | (iii) | 45 | ❺ |
| Balance c/d | | 62,281 | | Restocking charge | (v) | 48 | ❺ |
| | | | | Discount Disallowed | (vi) | 340 | ❺ |
| | | | | Balance c/d | | 772 | ❶ |
| | | 63,330 | | | | 63,330 | |
| Balance b/d | | 772 | | Balance b/d | | 62,281 | |

**(b)** 30

**Schedule of Creditors Account Balances**

| | | | | € | |
|---|---|---|---|---|---|
| Balance as per List of Creditors | | | | 60,067 | ❶ |
| Add Invoice | (i) | 960 | ❺ | | |
| Interest | (iii) | 70 | ❻ | | |
| Cash Purchases | (iv) | 760 | ❸ | | |
| Discount disallowed | (vi) | 340 | ❺ | | |
| | | | | 2,130 | |
| | | | | 62,197 | |
| Less: Credit note | (ii) | 304 | ❸ | | |
| Credit note | (v) | 384 | ❻ | ( 688) | |
| Net balance as per adjusted creditors control account | | | | 61,509 | ❶ |

**(c)** 6

To check accuracy of figures related to creditors by comparing balance in control account with Balance in the list of creditors

To locate errors quickly and to narrow searching for errors to confined areas

**Question 3 - solution.**

**(a)** 6

**Vehicles Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2003 | Balance b/d | 258,000 ❶ | 01/05/2003 | Disposal | 80,000 ❶ |
| 01/05/2003 | Purchases | 90,000 ❶ | 31/12/2003 | Balance b/d | 268,000 |
| | | 348,000 | | | 348,000 |
| 01/01/2004 | Balance b/d | 268,000 | 01/07/2004 | Disposal | 90,000 ❶ |
| 01/07/2004 | Purchases | 95,000 ❶ | 31/12/2004 | Balance c/d | 273,000 ❶ |
| | | 363,000 | | | 363,000 |
| 01/01/2005 | Balance b/d | 273,000 | | | |

**(b)** 16

**Disposal of Vehicle Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/05/2003 | Cost | 80,000 ❷ | 01/05/2003 | Provision for Dep | 33,000 ❷ |
| | | | | Compensation | 30,000 ❷ |
| | | | | Trade In | 15,000 ❷ |
| | | | | Loss | 2,000 ❶ |
| | | 80,000 | | | 80,000 |
| 01/07/2004 | Cost | 90,000 ❷ | 01/07/2004 | Prov.for Dep. | 74,250 ❷ |
| | Profit | 8,250 ❶ | | Trade in | 24,000 ❷ |
| | | 98,250 | | | 98,250 |

**(c)** 32

**Provision for Depreciation Account**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 01/05/2003 | Disposal | **W4** | 33,000 ❷ | 01/01/2003 | Balance b/d | **W1** | 106,100 ❻ |
| 31/12/2003 | Balance c/d | | 112,800 | 31/12/2003 | P&L | **W2** | 39,700 ❽ |
| | | | 145,800 | ❶ | | | 145,800 |
| 01/07/2004 | Disposal | **W5** | 74,250 ❷ | 01/01/2004 | Balance b/d | | 112,800 |
| 31/12/2004 | Balance b/d | | 79,125 ❹ | 31/12/2004 | P&L | **W3** | 40,575 ❽ |
| | | | 153,375 | ❶ | | | 153,375 |
| | | | | 01/01/2005 | Balance b/d | | 79,125 |

**(d)** 6

Cost of asset
Estimated life of asset
Scrap value of asset

Method of depreciation

**Workings**

| Vehicle No | Cost | Annual dep | Dep to 1/1/2003 | Dep for 2003 | Dep for 2004 | Total dep | |
|---|---|---|---|---|---|---|---|
| 1<br>Unit | 70,000<br>20,000 | 10,500 | 42,000<br>12,000 | 10,500<br>3,000 | 5,250<br>1,500 | **74,250** | **W 5** |
| 2 | 80,000 | 12,000 | 29,000 | 4,000 | - | **33,000** | **W 4** |
| 3 | 88,000 | 13,200 | 23,100 | 13,200 | 13,200 | | |
| 4 | 90,000 | 13,500 | - | 9,000 | 13,500 | | |
| 5 | 95,000 | 14,250 | - | - | 7,125 | | |
| | | | **106,100**<br>**W 1** | **39,700**<br>**W 2** | **40,575**<br>**W 3** | | |

**Provision Balance 1/1/2003**

| | | |
|---|---|---|
| Vehicle 1. | 42,000 | |
| Unit. | 12,000 | |
| Vehicle 2. | 29,000 | |
| Vehicle 3. | 23,100 | |
| | 106,100 | **W 1** |

**Provision for Dep. 2003**

| | | |
|---|---|---|
| Vehicle 1 | 10,500 | |
| Unit | 3,000 | |
| Vehicle 2 | 4,000 | |
| Vehicle 3 | 13,200 | |
| Vehicle 4 | 9,000 | |
| Vehicle 5 | Nil | |
| | 39,700 | **W 2** |

**Provision for Dep. 2004**

| | | |
|---|---|---|
| Vehicle 1 | 5,250 | |
| Unit | 1,500 | |
| Vehicle 2 | Nil | |
| Vehicle 3 | 13,200 | |
| Vehicle 4 | 13,500 | |
| Vehicle 5 | 7,125 | |
| | 40,575 | **W 3** |

**Disposal vehicle 2**

| | | |
|---|---|---|
| **01/01/2003** | | |
| Depreciation | 29,000 | |
| 2003 | | |
| Depreciation for | 4,000 | |
| | 33,000 | **W 4** |

**Disposal vehicle 1**

| | | |
|---|---|---|
| **01/01/2003** | | |
| Depreciation - Vehicle | 42,000 | |
| Depreciation -Unit | 12,000 | |
| **2003** | | |
| Depreciation -Vehicle | 10,500 | |
| Depreciation -Unit | 3,000 | |
| **2004** | | |
| Depreciation -Vehicle | 5,250 | |
| Depreciation -Unit | 1,500 | |
| | 74,250 | **W 5** |

## Question 4 - solution

**(a)** **35**

**Income and Expenditure Account of M.Casey for year ended 31/12/2004**

| | | | € | € |
|---|---|---|---|---|
| **Income;** | | | | |
| Private patients | | **W 1** | | 95,300 ❸ |
| Investment Income | | **W 2** | | 4,000 ❸ |
| Medical Insurance Scheme | | **W 3** | | 22,640 ❸ |
| | | | | 121,940 |
| **Less Expenditure** | | | | |
| Loss on sale of equipment | | **W 4** | 1,800 ❸ | |
| Cost of materials | | **W 5** | 14,800 ❺ | |
| Telephone and postage | | | 2,170 ❷ | |
| Wages of receptionist | | | 15,000 ❷ | |
| Technicians fees | | | 13,000 ❷ | |
| Interest on loan | | **W 6** | 400 ❷ | |
| Light and heat | | | 2,800 ❷ | |
| Insurance | | | 2,360 ❷ | |
| Depreciation; | Surgery | | 2,400 ❷ | |
| | Equipment | | 12,800 ❷ | |
| | Motor car | | 4,800 ❷ | (72,330) |
| Net profit | | | | 49,610 |

**(b)** **25**

**Balance Sheet of M. Casey as at 31/12/2004**

| **Fixed Assets** | | **Cost** | **Aggregate Depreciation** | **Net** |
|---|---|---|---|---|
| Surgery | | 120,000 ❶ | 7,200 ❷ | 112,800 |
| Equipment | **W 7** | 64,000 ❷ | 29,600 ❷ | 34,400 |
| Motor car | | 24,000 ❶ | 14,400 ❷ | 9,600 |
| | | 208,000 | 51,200 | 156,800 |
| Investments | | | | 80,000 ❶ |
| | | | | 236,800 |
| **Current Assets:** | | | | |
| Bank | | | 3,340 ❶ | |
| Investment income | | | 400 ❷ | |
| Stock | | | 4,900 ❶ | |
| Medical Ins. Scheme | | | 4,800 ❷ | |
| Private patients | | | 1,400 ❷ | |
| | | | 14,840 | |
| **Creditors: amounts falling due within 1 year** | | | | |
| Creditors for dental materials | | | 3,500 ❶ | 11,340 |
| | | | | **248,140** |
| **Financed by:** | | | | |
| Capital | | | | 219,160 ❶ |
| Surplus Income | | | | 49,610 |

| | | |
|---|---|---|
| | | 268,770 |
| Less Drawings | **W 8** | 20,630 ❹ |
| | | **248,140** |

**Workings - question 4**

| | | | | |
|---|---|---|---|---|
| 1 | Private Patients | 96,000 – 2,100 +1,400 | = | 95,300 |
| 2 | Investment Income | (3,600 + 400) | = | 4,000 |
| 3 | Medical Insurance Scheme | 23,540 – 5,700 + 4,800 | = | 22,640 |
| 4 | Loss on disposal | 18,000 – 7,200 – 9,000 | = | 1,800 |
| 5 | Dental material | 5,400 + (14,000 – 3,200 + 3,500) – 4,900 | = | 14,800 |
| 6 | Interest | (3,600 – 3,200) | = | 400 |
| 7 | Equipment | 60,000 + 22,000 – 18,000 | = | 64,000 |
| 8 | Drawings | 18,500 + 930 + 1,200 | = | 20,630 |

**Question 5 – solution**

**(a)** 45

**(i) Return on Capital Employed**

$$\frac{\text{Net Profit + Debenture Interest x 100}}{\text{Capital Employed}} = \frac{72{,}000 + 18{,}000 \text{ x}100}{842{,}000} = 10.68\%$$ ❾

**(ii) Opening stock**

$$\frac{\text{Cost of sales}}{\text{Average stock}} = 8 = \frac{740{,}000}{8 \text{ x Av stock}}$$

Average stock = 92,500

Opening stock = (92,500 x 2 ) less €110,000 = €75,000 ❾

**(iii) Earnings per share**

$$\frac{\text{Net profit after Pref Div}}{\text{Number of ordinary shares}} = \frac{72{,}000 - 16{,}000}{400{,}000} = 14\text{c}$$ ❾

**(iv) Period to recoup share**

$$\frac{\text{Market price}}{\text{Earnings per share}} = \frac{2.08}{14\text{c}} = 14.86 \text{ years}$$ ❾

**(v) Dividend cover**

$$\frac{\text{Net profit after Pref Div}}{\text{Ordinary dividend}} = \frac{72{,}000 - 16{,}000}{36{,}000} = 1.55 \text{ times}$$ ❾

**(b)** 40

## Performance

**Profitability**: ❽

Equip Ltd is a profitable business as its return on capital employed of 10.68% in 2004 and 9.5% in 2003. Its return on equity funds is 12.12% in 2004 and 12% in 2003. This indicates that the firm is earning nearly 3 times the return from risk free investments of about 3%. The profitability has improved by 1.18% since 2003.

**Dividend policy**: ❽

Dividend per share in 2004 is 9c and 7.5c in 2003. This has improved by1.5c since 2003.
The company's dividend cover is 1.55 times in 2004 but was 1.73 times in 2003. More profits are retained in 2004.
The dividend yield is 4.3% in 2004 and 3.75% in 2003. This has improved by 0.55% since last year. This yield is above the return on a risk free investment of 3%. The shareholders would be happy with the increase in dividend but would prefer a higher dividend yield. The real return to ordinary shareholders would be 6.7% based on available profits.

## State of Affairs

**Liquidity**: ❽

Equip Ltd does not have liquidity problem and is well able to pay their debts as they fall due. The company has €1.34 in liquid assets to pay each €1 in debts. This has improved from 2003 when the company had €1.20 to pay each €1 owed.
The current ratio has also improved since 2003 when the company had €1.80 in assets to cover each €1 of debt. They now have €1.95 to cover each €1 owed. This is slightly below the ideal of 2:1 but is not a cause of worry to shareholders.

**Gearing**: ❹

The gearing of the company is 45%. This is a low geared company. This would please the shareholders as it increases their chance of getting a dividend and there is little risk from outside.
The interest cover is 5 times and shows the ability of the company to meet their interest charges is good. This would please the shareholders.

**Investment Policy**: ❹

The investments made by the company cost €100,000. These investments now have a market value of €90,000, a drop in value of 10%. This indicates poor management of resources and would not please the shareholders.

## Prospects

**Value of shares**: ❹

Last year a share in Equip Ltd cost €2. The share price has now increased to €2.08. The price has increased by 4%. This would please the shareholders as it shows confidence in the company by the market.

**Sector**: ❹

Equip Ltd is a manufacturer of sports equipment. This is a good sector to be in as people are always interested in sport and with the heightened awareness of the need to exercise and avoid obesity it should also be a growing sector. There is also an increase in disposable income.

**(c) 5 x 3 marks** 15

The gross profit percentage has dropped from 32% in 2003 to 22% in 2004. This could be caused by:

- Cash losses
- Stock losses
- Mark downs during sales
- Incorrect valuation of stock
- Increased cost of sales without an increase in sales price
- Change in sales mix

## Question 6 - solution

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**Profit and Loss Account of Gayle Plc for year ended 31/12/2004**

| | | € |
|---|---|---|
| Turnover | | 1,880,000 ❷ |
| Cost of Sales | | (1,137,000) ❹ |
| Gross Profit | | 743,000 |
| Distribution Costs | | (294,800) ❸ |
| | | 448,200 |
| Administrative Expenses | | (254,700) ❺ |
| | | 193,500 |
| Other Operating Income | | 85,000 ❸ |
| Operating Profit ❶ | | 278,500 |
| Investment income | | 21,600 ❷ |
| Profit on sale of land | | 65,000 ❷ |
| | | 365,100 |
| Interest payable | | (16,000) ❸ |
| Profit on ordinary activities before tax | | 349,100 |
| Taxation | | (87,000) ❷ |
| | | 262,100 |
| Dividend paid | (24,000) ❸ | |
| Dividend proposed | (22,000) ❸ | (46,000) |
| | | 216,100 |
| Profit brought forward at 1/1/2004 | | 52,000 ❷ |
| Profit carried forward at 31/12/2004 | | 268,100 ❶ |

**Workings**

| | | | |
|---|---|---|---|
| Cost of Sales | 73,000 + 1,150,000 + 10,000 – 96,000 | = | 1,137,000 |
| Distribution Costs | 248,000 + 2,800 + 44,000 | = | 294,800 |
| Administrative Expenses | 172,000 + 9,500 + 50,000 + 11,200 + 12,000 | = | 254,700 |
| Other Operating Income | 60,000 + 13,000 + 12,000 | = | 85,000 |
| Debtors | 289,000 – 27,000 +11,600 | = | 273,600 |

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**Balance Sheet of Gayle Plc as at 31/12/2004**

| | | | |
|---|---|---|---|
| **Fixed Assets** | | | € |
| Intangible assets | | | 30,000 ❷ |
| Tangible Assets | | | 1,043,000 ❷ |
| Financial Assets | | | 240,000 ❶ |
| | | | 1,313,000 |
| **Current Assets** | | | |
| Stock | 96,000❶ | | |
| Debtors | 273,600❸ | | |
| Bank | 48,000❶ | 417,600 | |
| **Creditors: amounts falling due within 1 year:** ❶ | | | |
| Trade Creditors | 163,00❶ | | |
| Dividends due | 22,000❷ | | |
| Taxation | 158,000❷ | | |
| Other Creditors | 63,500❹ | | |
| | | (406,500) | |
| Net Current Assets | | | 11,100 |
| **Total assets less Current Liabilities** | | | 1,324,100 |
| **Creditors: amounts falling due after more than 1 year** | | | |
| 8% Debentures | | | 200,000 ❶ |
| **Capital and Reserves** | | | |
| Issued shares | | 600,000 ❷ | |
| Revaluation Reserve | | 256,000❸ | |
| Profit carried forward | | 268,100❶ | |
| | | | 1,124,000 |
| | | | 1,324,100 |

## Notes to the Accounts

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**Accounting policy notes**

1. **Tangible Fixed Assets** ❻
   Buildings were revalued at the end of 2004 and have been included in the accounts at their revalued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value of the tangible 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. **Operating Profit** ❸
   Operating profit is arrived at after charging;

| | |
|---|---|
| Depreciation on Tangible Assets | 58,000 |
| Patent amortised | 10,000 |

| | |
|---|---|
| Directors remuneration | 50,000 |
| Auditors fees | 9,500 |

**3. Interest payable** ❷

| | |
|---|---|
| Interest payable on debentures (Repayable by 2008/2009) | 16,000 |

**4. Dividends** ❹

| | | |
|---|---|---|
| **Ordinary dividends** | | |
| Interim/ Paid 3.75c per share | 15,000 | |
| Final proposed 3.25c per share | 13,000 | 28,000 |
| **Preference dividends** | | |
| Interim/ Paid 4.5c per share | 9,000 | |
| Final proposed 4.5c per share | 9,000 | 18,000 |

**5. Tangible Fixed Assets** ❻

| | **Land&Buildings** | **Vehicles** | **Total** |
|---|---|---|---|
| 1/1/2004 | 780,000 | 220,000 | 1,000,000 |
| Disposal | (80,000) | | (80,000) |
| Revaluation surplus 31/12/2004 | 200,000 | | 200,000 |
| Value at 31/12/2004 | 900,000 | 220,000 | 1,120,000 |
| | | | |
| **Depreciation 1/1/2004** | 42,000 | 33,000 | 75,000 |
| Depreciation charge for year | 14,000 | 44,000 | 58,000 |
| | 56,000 | 77,000 | 133,000 |
| Transfer on Revaluation | (56,000) | | (56,000) |
| Depreciation 31/12/2004 | Nil | 77,000 | 77,000 |
| | | | |
| Net Book Value 1/1/2004 | 738,000 | 187,000 | 925,000 |
| Net Book Value 31/12/2004 | 900,000 | 143,000 | 1,043,000 |

**(b) Directors Report 3 x 3 marks** 9

A Directors Report must contain the following:

- The dividends recommended for payment.
- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company's business during the year
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company's subsidiaries and affiliates.
- Evaluation of company's compliance with it's safety statement
- Details of directors' share holdings and dealings during the year

**(c) Exceptional Item** 7

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 size. ❹

Example - Profit or loss on sale of fixed asset or large bad debt. ❸

## Question 7 - solution

52

**(a)**

**Trading and Profit and Loss Account for year ended 31/12/2004**

| | | | |
|---|---|---|---|
| Sales | **(W1)** | | 212,610 ❾ |
| Less Cost of Sales | | | |
| Opening stock | | 15,200❷ | |
| Purchases | **(W2)** | 77,700❼ | |
| | | 92,900 | |
| Closing stock | | (17,000)❷ | 75,900 |
| Gross Profit | | | 136,710 |
| **Less Expenses:** | | | |
| General expenses | **(W3)** | 22,000❺ | |
| Donation to charity | | 3,200❷ | |
| Light and heat | **(W4)** | 4,976❼ | |
| Interest | **(W5)** | 4,200❹ | |
| Insurance | **(W6)** | 5,360❻ | |
| Rent | **(W7)** | 400❺ | |
| | | | 40,136 |
| Net Profit | | | 96,574 ❸ |

**Workings:**

1. Sales

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Credit sales | | | 34,000 | + | 18,100 | – | 17,000 | = | 35,100 |
| Cash sales | 96,000+ 23,700 | + | 53,000 | + | 4,160 | + | 650 | = | 177,510 |
| Total Sales | | | | | | | | | **212,610** |

2. Purchases

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Credit purchases | 33,100 | + | 15,500 | – | 18,700 | = | 29,900 |
| Cash purchases | | | | | | | 53,000 |
| Total purchases | | | | | | | 82,900 |
| Less drawings of stock | | | | | | | (5,200) |
| Total purchases | | | | | | | **77,700** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 3. General expenses | | | | | 23,700 | – | 1,700 | = | 22,000 |
| 4. Light and heat | 5,800 | + | 720 | – | 300 | | 1,244 | = | 4,976 |
| 5. Loan Interest | | | | | 2,325 | + | 1,875 | = | 4,200 |
| 6. Insurance | | | 6,000 | + | 860 | – | 1,500 | = | 5,360 |
| 7. Rent | | | 2,400 | – | 1,200 | – | 800 | = | 400 |
| 8. Drawings | 5,200 | + | 4,160 | + | 800 | + | 1244 | = | 11,404 |

**(b)** **40**

**Balance sheet as at 31/12/2004**

| | | | € | € |
|---|---|---|---|---|
| **Intangible Fixed Assets** | | | | |
| Goodwill | | | | 20,340 ❸ |
| **Tangible Fixed Assets** | | | | |
| Buildings | | | 232,000❷ | |
| Vehicles | | | 26,000❶ | |
| Equipment | | | 22,000❶ | 280,000 |
| | | | | 300,340 |
| **Current Assets** | | | | |
| Stock | | | 17,300❶ | |
| Debtors | | | 18,100❶ | |
| Bank | | | 46,975❺ | |
| Cash | | | 650❶ | |
| Insurance prepaid | | | 1,500❸ | |
| Rent prepaid | | | 1,200❸ | |
| | | | 85,725 | |
| **Creditors falling due within 1 year:** | | | | |
| Creditors | | 15,500 ❶ | | |
| Electricity due | | 720 ❶ | | |
| Interest due | | 1,875 ❸ | | |
| Loan repayment due | | 7,000 ❷ | 25,095 | |
| | | | | 60,630 |
| | | | | 360,970 |
| **Financed by:** | | | | |
| **Creditors falling due after more than 1 year:** | | | | |
| Loan | | | | 77,000 ❷ |
| **Capital** | | | 195,000❷ | |
| Capital introduced | | | 3,800❸ | |
| Net profit | | | 96,574 | |
| | | | 295,374 | |
| Less drawings | **W 8** | | 11,404❺ | |
| | | | | 283,970 |
| | | | | 360,970 |

**(c)** **8**

Total sales figure
Total purchases figure
Trial balance
Bank balance
Capital
Goodwill
Bad debts

Expenses due and prepaid
Discounts

## Question 8 - solution

29

**(a)** **Overhead analysis**

| **Overhead** | | **Basis** | **Total** | **Processing** | **Assembly** | **Finishing** |
|---|---|---|---|---|---|---|
| Ind. Material | | Actual | 250,000 | 120,000 ❶ | 70,000 ❶ | 60,000 ❶ |
| Ind. labour | | Actual | 400,000 | 260,000 ❶ | 80,000 ❶ | 60,000 ❶ |
| Light & heat | ❶ | Volume | 90,000 | 45,000 ❶ | 30,000 ❶ | 15,000 ❶ |
| Rent & Rates | ❶ | Floor space | 54,000 | 36,000 ❶ | 13,500 ❶ | 4,500 ❶ |
| Mach. Maint. | ❶ | Machine hours | 24,000 | 12,000 ❶ | 9,600 ❶ | 2,400 ❶ |
| Depreciation | ❶ | Plant valuation | 60,000 | 36,000 ❶ | 14,400 ❶ | 9,600 ❶ |
| Canteen | ❶ | Employees | 45,000 | 22,500 ❶ | 16,875 ❶ | 5,625 ❶ |
| | | | **923,000** | **531,500** ❶ | **234,375** ❶ | **157,125** ❶ |

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**(b)**

| **Overhead recovery (absorption) per** | **Machine hours** | **Direct Labour hours** | |
|---|---|---|---|
| | **Processing** (Machine hours) | **Assembly** (Labour hours) | **Finishing** (Labour hours) |
| Budgeted Overheads | 531,500 | 234,375 | 157,125 |
| Budgeted Hours | 25,000 | 45,000 | 15,000 |
| Overhead absorption rate per machine hour | **€ 21.26** | | |
| Overhead absorption rate per labour hour | **€8.86** ❼ | **€ 5.21** ❼ | **€10.48** ❼ |

22

**(c)**

**Selling price of Job No.316**

| | | € |
|---|---|---|
| Materials | 8000 + 1,800 | 9,800.00 ❷ |
| Labour | 1,000 + 3,200 + 600 | 4,800.00 ❸ |
| Overheads: | | |
| Processing | 40 x €21.26 | 850.40 ❹ |
| Assembly | 60 x €5.2 | 312.60 ❹ |
| Finishing | 10 x €10.48 | 104.80 ❹ |
| **Production cost** | 75% | 15,867.80 |
| **Profit** | 25% | 5,289.27 ❶ |
| **Selling Price** | 100% | €21,157.07 ❹ |

8

**(d)**

**Absorption rates** ❻ Per Labour Hour
Per Machine Hour
Per Unit
Per Percentage of Prime Cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge. ❷

## Question 9- solution

**(a)**

| **Sales Budget** | **Silver** | **Gold** |
|---|---|---|
| Expected sales in units | 8,000 | 3,700 |
| Expected selling price per unit | €140 | €170 |
| Budgeted sales revenue | € 1,120,000 | €629,000 |

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**Production Budget - Spencer Ltd.**

| | **Silver Units** | **Gold Units** |
|---|---|---|
| Required by sales | 8,000❸ | 3,700 ❸ |
| Closing stock (80% of opening stock) | 400❷ | 320 ❷ |
| | 8,400 | 4,020 |
| Opening stock | (500)❷ | (400)❷ |
| Budgeted production in units | **7,900** | **3,620** |

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**(b)** **Raw Materials Purchases Budget**

| | | | **Material 1 kgs** | **Material 2 kgs** | |
|---|---|---|---|---|---|
| Required by production | **- Silver** | (7,900 x 6) | 47,400 | 39,500 | (7,900 x 5) |
| | **- Gold** | (3,620 x 4) | 14,480 | 25,340 | (3,620 x7) |
| | | | 61,880 ❹ | 64,840 ❹ | |
| Add closing stock (80% of opening stock) | | | 3,200 ❷ | 2,400 ❷ | |
| | | | 65,080 | 67,240 | |
| Less opening stock | | | (4,000) ❷ | (3,000) ❷ | |
| Required Purchases of raw materials in kg's | | | 61,080 | 64,240 | |
| Purchase price | | | €2 ❶ | €4 ❶ | |
| **Purchase cost** | | | **£122,160** | **£256,960** | **€379,120** |

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**(c)** **Production Cost / Manufacturing Budget**

| | | | |
|---|---|---|---|
| **Cost of Raw Materials consumed:** | | | |
| Opening stock of raw materials | Silver (4,000 x 1.80) | 7,200 | |
| | Gold (3,000 x 3.50) | 10,500 | 17,700 ❹ |
| Purchases | (122,160 + 256,960) | | 379,120 ❷ |
| | 396,820 | | |
| Less closing stock of raw materials | Silver ( 3,200 x 2.00) | 6,400 | |
| | Gold ( 2,400 x 4.00) | 9,600 | 16,000 ❹ |
| | | | 380,820 |
| Cost of labour | (568,800 + 304,080) | | 872,880 ❹ |
| Variable Overheads | (142,200 + 76,020) | | 218,220 ❻ |
| Fixed Overheads | | | 145,480 ❷ |
| Cost of Manufacture | | | €1,617,400 ❹ |

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**(d)**

**Budgeted Trading Account**

| | | | | € |
|---|---|---|---|---|
| Sales of finished goods | (1,120,000 + 629,000) | | | 1,749,000 ❸ |
| Opening stock of finished goods | Silver (500 X €120) | 60,000 | | |
| | Gold (400 X €140) | 56,000 | 116,000 ❹ | |
| Cost of manufacture | | | 1,617,400 ❸ | |
| | | | 1,733,400 | |
| Less closing stock | Silver (400 X €134) | 53,600 | | |
| | Gold (320 X €155) | 49,600 | (103,200) ❹ | |
| Cost of goods sold | | | | 1,630,200 |
| Gross Profit | | | | €118,800 ❷ |

6

**(e)** Market research
Trends
Last year sales
Opinion of Sales manager and sales representatives
Price to be charged
State of Economy
Competition
Luxury versus necessities

## Workings

**1 Labour Budget**

| | | | | |
|---|---|---|---|---|
| **Silver** | 7,900 x 6hrs | = 47,400 hrs x €12 | = | €568,800 |
| **Gold** | 3,620 x 7hrs | = 25,340 hrs x €12 | = | €304,080 |

**2 Variable Overheads**

| | | | |
|---|---|---|---|
| **Silver** | 47,400hrs X €3 | = | €142,200 |
| **Gold** | 25,340hrs X €3 | = | €76,020 |

**3 Closing stock**

| **Silver** | | € | **Gold** | | € |
|---|---|---|---|---|---|
| Material 1 | 6kgs x €2 | 12 | Material 1 | 4 kgs x €2 | 8 |
| Material 2 | 5kgs x €4 | 20 | Material 2 | 7 kgs x €4 | 28 |
| Labour | 6hrs x €12 | 72 | Labour | 7 hrs x €12 | 84 |
| Variable | 6hrs x €3 | 18 | Variable | 7 hrs x €3 | 21 |
| Fixed | 6hrs x €2 | 12 | Fixed | 7 hrs x €2 | 14 |
| | | €134 | | | €155 |

| | | |
|---|---|---|
| 400 x €134 | = | €53,600 |
| 320 x €155 | = | €49,600 |
| | | 103,200 |

**4 Fixed Overheads per direct labour hour**

$$\frac{145{,}480}{[(7900 \times 6) + (3620 \times 7)]} = \frac{145{,}480}{72{,}740} = €2$$