

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 **6** alongside. These marks are then totalled for each section/page and shown in a square like this **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

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Question 1 – solution

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

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

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

			€
Sales	W 6		925,400 ⑤
Opening stock of finished goods		85,500 ②	
Goods transferred @ CMV		<u>800,000 ②</u>	
		885,500	
Less closing stock of finished goods	W 7	<u>97,500 ⑥</u>	
Cost of goods sold		788,000	<u>(788,000)</u>
Gross profit on trading			137,400
Gross profit on manufacture			<u>91,330</u>
			228,730
Less Expenses:			
Administration Expenses			
Administration expenses	W 8	22,900 ⑥	
Selling and Distribution Expenses:			
Selling expenses		<u>68,420 ②</u>	<u>(91,320)</u>
			137,410
Discount (net)	W 9		<u>3,000 ③</u>
Operating Profit			140,410
Less Debenture Interest	W 10		<u>(8,325) ④</u>
Net profit before taxation			132,085
Less Taxation			<u>(10,000) ②</u>
Profit after tax			122,085
Less Preference dividend paid		8,000 ①	
Preference dividend due		8,000 ①	
Ordinary dividend paid		9,000 ①	
Ordinary dividend due		<u>18,000 ①</u>	
			<u>(43,000)</u>
Retained Profit			79,085
Profit and Loss Balance 1/1/2004			<u>82,300 ②</u>
Profit and Loss Balance 31/12/2004			<u>161,385 ②</u>

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

Intangible Assets					€
Patents					70,000 ②
Tangible Assets;		Accumulated		Net	
		Cost	Depreciation		
		€	€	€	
Factory Buildings	W 11	508,000 ②	55,160 ②	452,840	
Plant and Machinery	W 3,12	<u>238,000 ②</u>	<u>135,100 ③</u>	<u>102,900</u>	
		<u>746,000</u>	<u>190,260</u>	<u>555,740</u>	<u>555,740</u>
					625,740
Current Assets;					
Stocks Raw materials			51,000 ②		
Work in progress			28,550 ②		
Finished goods			<u>97,500 ②</u>	177,050	
Debtors	W 13			<u>84,800 ⑤</u>	
				261,850	
Creditors: amounts falling due within 1 year:					
Trade creditors			57,700 ②		
Bank			11,450 ②		
VAT			12,730 ②		
Dividends due			26,000 ④		
Taxation			10,000 ②		
Debenture interest due			<u>8,325 ③</u>		<u>126,205</u>
Net Current Assets					<u>135,645</u>
					<u>761,385</u>
Financed By:					
Creditors: amounts falling due after more than 1 year					
9% Debentures					100,000 ②
Capital and Reserves:		Authorised		Issued	
Ordinary Shares at 1 each		550,000 ①		300,000 ②	
8% Preference shares at 1 each		<u>250,000 ①</u>		<u>200,000 ②</u>	
		<u>800,000</u>		500,000	
Profit and Loss Balance 31/12/2004				<u>161,385</u>	
					<u>661,385</u>
					<u>761,385</u>

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	$26,000 + 23,800$ $47,600 + 2,200$	= =	49,800 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)

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Adjusted Creditors Control Account

	€		€
Balance b/d	772 2	Balance b/d	62,125 1
Credit note (ii)	277 5	Interest (iii)	45 5
Balance c/d	62,281	Restocking charge (v)	48 5
		Discount Disallowed (vi)	340 5
		Balance c/d	<u>772</u> 1
	<u>63,330</u>		<u>63,330</u>
Balance b/d	772	Balance b/d	62,281

(b)

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Schedule of Creditors Account Balances

		€
Balance as per List of Creditors		60,067 1
Add Invoice (i)	960 5	
Interest (iii)	70 6	
Cash Purchases (iv)	760 3	
Discount disallowed (vi)	<u>340</u> 5	
		<u>2,130</u>
		62,197
Less: Credit note (ii)	304 3	
Credit note (v)	<u>384</u> 6	(688) 1
Net balance as per adjusted creditors control account		<u>61,509</u> 1

(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.

6

(a)

Vehicles Account

01/01/2003	Balance b/d	258,000 ①	01/05/2003	Disposal	80,000 ①
01/05/2003	Purchases	<u>90,000 ①</u>	31/12/2003	Balance b/d	<u>268,000</u>
		<u>348,000</u>			<u>348,000</u>
01/01/2004	Balance b/d	268,000	01/07/2004	Disposal	90,000 ①
01/07/2004	Purchases	<u>95,000 ①</u>	31/12/2004	Balance c/d	<u>273,000 ①</u>
		<u>363,000</u>			<u>363,000</u>
01/01/2005	Balance b/d	273,000			

(b)

Disposal of Vehicle Account

01/05/2003	Cost	80,000 ②	01/05/2003	Provision for Dep	33,000 ②
				Compensation	30,000 ②
				Trade In	15,000 ②
				Loss	<u>2,000 ①</u>
		<u>80,000</u>			<u>80,000</u>
01/07/2004	Cost	90,000 ②	01/07/2004	Prov. for Dep.	74,250 ②
	Profit	<u>8,250 ①</u>		Trade in	<u>24,000 ②</u>
		<u>98,250</u>			<u>98,250</u>

(c)

Provision for Depreciation Account

01/05/2003	Disposal W4	33,000 ②	01/01/2003	Balance b/d	W1	106,100 ⑥
31/12/2003	Balance c/d	<u>112,800</u>	31/12/2003	P&L	W2	<u>39,700 ⑧</u>
		<u>145,800</u>			①	<u>145,800</u>
01/07/2004	Disposal W5	74,250 ②	01/01/2004	Balance b/d		112,800
31/12/2004	Balance b/d	<u>79,125 ④</u>	31/12/2004	P&L	W3	<u>40,575 ⑧</u>
		<u>153,375</u>			①	<u>153,375</u>
			01/01/2005	Balance b/d		79,125

(d)

Cost of asset
 Estimated life of asset
 Scrap value of asset

6

Method of depreciation

Workings

Vehicle No	Cost	Annual dep	Dep to 1/1/2003	Dep for 2003	Dep for 2004	Total dep	
1	70,000	10,500	42,000	10,500	5,250	74,250	W 5
Unit	20,000		12,000	3,000	1,500		
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	39,700	40,575		
			W 1	W 2	W 3		

Provision Balance 1/1/2003

Vehicle 1.	42,000	
Unit.	12,000	
Vehicle 2.	29,000	
Vehicle 3.	<u>23,100</u>	
	<u>106,100</u>	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	<u>Nil</u>	
	<u>39,700</u>	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	<u>7,125</u>	
	<u>40,575</u>	W 3

Disposal vehicle 2

01/01/2003		
Depreciation 2003	29,000	
Depreciation for	<u>4,000</u>	
	<u>33,000</u>	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	<u>1,500</u>	
	<u>74,250</u>	W 5

Question 4 - solution

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(a)

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

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

(b)

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

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Fixed Assets	Cost	Aggregate Depreciation	Net
Surgery	120,000 ①	7,200 ②	112,800
Equipment W 7	64,000 ②	29,600 ②	34,400
Motor car	<u>24,000 ①</u>	<u>14,400 ②</u>	<u>9,600</u>
	208,000	51,200	156,800
Investments			<u>80,000 ①</u>
			236,800
Current Assets:			
Bank		3,340 ①	
Investment income		400 ②	
Stock		4,900 ①	
Medical Ins. Scheme		4,800 ②	
Private patients		<u>1,400 ②</u>	
		14,840	
Creditors: amounts falling due within 1 year			
Creditors for dental materials		<u>3,500 ①</u>	<u>11,340</u>
			<u>248,140</u>
Financed by:			
Capital			219,160 ①
Surplus Income			<u>49,610</u>

Less Drawings

W 8

268,770

20,630 ④

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

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(a)

(i) Return on Capital Employed

$$\frac{\text{Net Profit} + \text{Debenture Interest} \times 100}{\text{Capital Employed}} = \frac{72,000 + 18,000 \times 100}{842,000} = 10.68\% \text{ 9}$$

(ii) Opening stock

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

$$\begin{aligned} \text{Average stock} &= 92,500 \\ \text{Opening stock} &= (92,500 \times 2) \text{ less } \text{€}110,000 = \text{€}75,000 \text{ 9} \end{aligned}$$

(iii) Earnings per share

$$\frac{\text{Net profit after Pref Div}}{\text{Number of ordinary shares}} = \frac{72,000 - 16,000}{400,000} = 14\text{c} \text{ 9}$$

(iv) Period to recoup share

$$\frac{\text{Market price}}{\text{Earnings per share}} = \frac{2.08}{14\text{c}} = 14.86 \text{ years} \text{ 9}$$

(v) Dividend cover

$$\frac{\text{Net profit after Pref Div}}{\text{Ordinary dividend}} = \frac{72,000 - 16,000}{36,000} = 1.55 \text{ times} \text{ 9}$$

(b)

40

Performance

Profitability: 8

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: ⑧

Dividend per share in 2004 is 9c and 7.5c in 2003. This has improved by 1.5c 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:** ⑧

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: ④

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: ④

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:** ④

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: ④

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 ②
Cost of Sales		<u>(1,137,000) ④</u>
Gross Profit		743,000
Distribution Costs		<u>(294,800) ③</u>
		448,200
Administrative Expenses		<u>(254,700) ⑤</u>
		193,500
Other Operating Income		<u>85,000 ③</u>
Operating Profit ①		278,500
Investment income		21,600 ②
Profit on sale of land		<u>65,000 ②</u>
		365,100
Interest payable		<u>(16,000) ③</u>
Profit on ordinary activities before tax		349,100
Taxation		<u>(87,000) ②</u>
		262,100
Dividend paid	(24,000) ③	
Dividend proposed	<u>(22,000) ③</u>	<u>(46,000)</u>
		216,100
Profit brought forward at 1/1/2004		<u>52,000 ②</u>
Profit carried forward at 31/12/2004		<u>268,100 ①</u>

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

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

Fixed Assets			€
Intangible assets			30,000 ②
Tangible Assets			1,043,000 ②
Financial Assets			<u>240,000 ①</u>
			1,313,000
Current Assets			
Stock	96,000 ①		
Debtors	273,600 ③		
Bank	<u>48,000 ①</u>	417,600	
Creditors: amounts falling due within 1 year: ①			
Trade Creditors	163,000 ①		
Dividends due	22,000 ②		
Taxation	158,000 ②		
Other Creditors	<u>63,500 ④</u>		
		(406,500)	
Net Current Assets			<u>11,100</u>
Total assets less Current Liabilities			<u>1,324,100</u>
Creditors: amounts falling due after more than 1 year			
8% Debentures			200,000 ①
Capital and Reserves			
Issued shares		600,000 ②	
Revaluation Reserve		256,000 ③	
Profit carried forward		<u>268,100 ①</u>	
			<u>1,124,000</u>
			<u>1,324,100</u>

Notes to the Accounts

Accounting policy notes

1. Tangible Fixed Assets ⑥

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 ③

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 ②
 Interest payable on debentures (Repayable by 2008/2009) 16,000

4. Dividends ④

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 ⑥

	Land&Buildings	Vehicles	Total
1/1/2004	780,000	220,000	1,000,000
Disposal	(80,000)		(80,000)
Revaluation surplus 31/12/2004	<u>200,000</u>		<u>200,000</u>
Value at 31/12/2004	<u>900,000</u>	<u>220,000</u>	<u>1,120,000</u>
Depreciation 1/1/2004	42,000	33,000	75,000
Depreciation charge for year	<u>14,000</u>	<u>44,000</u>	<u>58,000</u>
	56,000	77,000	133,000
Transfer on Revaluation	<u>(56,000)</u>		<u>(56,000)</u>
Depreciation 31/12/2004	Nil	<u>77,000</u>	<u>77,000</u>
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. ④

Example - Profit or loss on sale of fixed asset or large bad debt. ③

Question 7 - solution

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(a)

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

Sales	(W1)		212,610 ⑨
Less Cost of Sales			
Opening stock		15,200 ②	
Purchases	(W2)	<u>77,700</u> ⑦	
		92,900	
Closing stock		<u>(17,000)</u> ②	<u>75,900</u>
Gross Profit			136,710
Less Expenses:			
General expenses	(W3)	22,000 ⑤	
Donation to charity		3,200 ②	
Light and heat	(W4)	4,976 ⑦	
Interest	(W5)	4,200 ④	
Insurance	(W6)	5,360 ⑥	
Rent	(W7)	<u>400</u> ⑤	
			<u>40,136</u>
Net Profit			<u>96,574</u> ③

Workings:

1. Sales						
Credit sales		34,000	+ 18,100	- 17,000	=	35,100
Cash sales	96,000 + 23,700	+ 53,000	+ 4,160	+ 650	=	<u>177,510</u>
Total Sales						212,610
2. Purchases						
Credit purchases		33,100	+ 15,500	- 18,700	=	29,900
Cash purchases						<u>53,000</u>
Total purchases						82,900
Less drawings of stock						<u>(5,200)</u>
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	+ 1,244	=	11,404

(b)

Balance sheet as at 31/12/2004

Intangible Fixed Assets	€	€
Goodwill		20,340 ③
Tangible Fixed Assets		
Buildings	232,000 ②	
Vehicles	26,000 ①	
Equipment	<u>22,000 ①</u>	<u>280,000</u>
		300,340
Current Assets		
Stock	17,300 ①	
Debtors	18,100 ①	
Bank	46,975 ⑤	
Cash	650 ①	
Insurance prepaid	1,500 ③	
Rent prepaid	<u>1,200 ③</u>	
	85,725	
Creditors falling due within 1 year:		
Creditors	15,500 ①	
Electricity due	720 ①	
Interest due	1,875 ③	
Loan repayment due	<u>7,000 ②</u>	<u>25,095</u>
		<u>60,630</u>
		<u>360,970</u>
Financed by:		
Creditors falling due after more than 1 year:		
Loan		77,000 ②
Capital	195,000 ②	
Capital introduced	3,800 ③	
Net profit	<u>96,574</u>	
	295,374	
Less drawings	<u>11,404 ⑤</u>	
		<u>283,970</u>
		<u>360,970</u>

(c)

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 ①	70,000 ①	60,000 ①
Ind. labour	Actual	400,000	260,000 ①	80,000 ①	60,000 ①
Light & heat	① Volume	90,000	45,000 ①	30,000 ①	15,000 ①
Rent & Rates	① Floor space	54,000	36,000 ①	13,500 ①	4,500 ①
Mach. Maint.	① Machine hours	24,000	12,000 ①	9,600 ①	2,400 ①
Depreciation	① Plant valuation	60,000	36,000 ①	14,400 ①	9,600 ①
Canteen	① Employees	45,000	22,500 ①	16,875 ①	5,625 ①
		923,000	531,500 ①	234,375 ①	157,125 ①

(b)

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Overhead recovery (absorption) per	Machine hours	Direct Labour hours	
	Processing (Machine hours)	Assembly (Labour hours)	Finishing (Labour hours)
<u>Budgeted Overheads</u>	<u>531,500</u>	<u>234,375</u>	<u>157,125</u>
Budgeted Hours	25,000	45,000	15,000
Overhead absorption rate per machine hour	€ 21.26		
Overhead absorption rate per labour hour	€8.86 ⑦	€ 5.21 ⑦	€10.48 ⑦

(c)

22

Selling price of Job No.316

		€
Materials	8000 + 1,800	9,800.00 ②
Labour	1,000 + 3,200 + 600	4,800.00 ③
Overheads:		
Processing	40 x €21.26	850.40 ④
Assembly	60 x €5.2	312.60 ④
Finishing	10 x €10.48	<u>104.80 ④</u>
Production cost	75%	15,867.80
Profit	25%	<u>5,289.27 ①</u>
Selling Price	100%	<u>€21,157.07 ④</u>

(d)

8

Absorption rates ⑥	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. ②

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

Production Budget - Spencer Ltd.

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	Silver Units	Gold Units
Required by sales	8,000 ③	3,700 ③
Closing stock (80% of opening stock)	<u>400 ②</u>	<u>320 ②</u>
	8,400	4,020
Opening stock	<u>(500) ②</u>	<u>(400) ②</u>
Budgeted production in units	<u>7,900</u>	<u>3,620</u>

(b)

Raw Materials Purchases Budget

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	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) <u>14,480</u>	<u>25,340</u> (3,620 x 7)	
	61,880 ④	64,840 ④	
Add closing stock (80% of opening stock)	<u>3,200 ②</u>	<u>2,400 ②</u>	
	65,080	67,240	
Less opening stock	<u>(4,000) ②</u>	<u>(3,000) ②</u>	
Required Purchases of raw materials in kg's	61,080	64,240	
Purchase price	€2 ①	€4 ①	
Purchase cost	£122,160	£256,960	€379,120

(c)

Production Cost / Manufacturing Budget

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Cost of Raw Materials consumed:

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

(d)

Budgeted Trading Account

			€
Sales of finished goods	(1,120,000 + 629,000)		1,749,000 ^③
Opening stock of finished goods	Silver (500 X €120)	60,000	
	Gold (400 X €140)	<u>56,000</u>	116,000 ^④
Cost of manufacture			<u>1,617,400</u> ^③
			1,733,400
Less closing stock	Silver (400 X €134)	53,600	
	Gold (320 X €155)	<u>49,600</u>	<u>(103,200)</u> ^④
Cost of goods sold			1,630,200
Gross Profit			<u>€118,800</u> ^②

- (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	<u>12</u>	Fixed	7 hrs x €2	<u>14</u>
		<u>€134</u>			<u>€155</u>
400 x €134	=	€53,600			
320 x €155	=	<u>€49,600</u>			
		103,200			

4 Fixed Overheads per direct labour hour

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

Leaving Certificate Accounting - Ordinary Level 2005

Question 1 - solution

40

Manufacturing account of Brophy Ltd for the year ended 31/12/2004

	€	
Stock - Raw materials 1/1/2004	46,000	②
Add Purchase -Raw materials	<u>590,000</u>	②
	636,000	
Less Stock - Raw materials 31/12/2004	<u>44,000</u>	②
Cost of raw materials consumed	592,000	
Add Factory wages 80% (W1)	96,000	④
Add Direct expenses	<u>20,000</u>	②
Prime Cost	708,000	
Add Factory Overhead Expenses		
Factory supervisor wages	24,000	③
Factory light & heat	16,800	③
Factory insurance (W2)	8,600	④
Depreciation -Plant & Machinery 10% of cost	19,000	③
Depreciation -Factory Building 4% of cost	<u>20,000</u>	③
	<u>88,400</u>	
Factory cost	796,400	
Add Work in progress 1/1/2004	<u>18,000</u>	③
	814,400	
Less Work in progress 31/12/20/04	<u>15,000</u>	③
	799,400	
Less sales of scrap materials	<u>12,800</u>	③
Cost of manufacture	786,600	①
Profit on manufacture	<u>13,400</u>	①
Transfer at Current Market Value	<u>800,000</u>	①

Question 1-solution

40

(b)

Trading, Profit and Loss Account of Brophy Ltd for the year ended 31/12/2004.

	€		
Sales	860,000	③	
Less sales returns	<u>4,000</u>	③	
	856,000		
Less Cost of sales			
Opening stock of finished goods	32,000	②	
Add cost of manufacture	<u>800,000</u>	②	
	832,000		
Less closing stock of finished goods	<u>49,000</u>	②	
Cost of sales	<u>783,000</u>		
Gross Profit	73,000	①	
Add manufacturing Profit	<u>13,400</u>	①	
	86,400		
Less Expenses			
Administration ①			
Stationery	2,400	③	
Directors fees	<u>52,000</u>	③	
	54,400		
Selling & Distribution ①			
Showroom expenses	3,900	④	
Depreciation - Delivery van 10% B.V	<u>2,800</u>	④	
	<u>6,700</u>		
Total Expenses	<u>61,100</u>		
Operating Profit	25,300		
Less debenture interest	(W3)	<u>5,400</u>	④
Net Profit for this year	19,900	②	
Add Profit & Loss Balance 1/1/04	<u>123,200</u>	②	
Profit and Loss Balance at 31/12/2004	<u>143,100</u>	②	

Workings

(W1) Factory wages:	€120,000 – 24,000	=	€96,000
(W2) Factory Insurance:	€12,900 – 4,300	=	€8,600
(W3) Debenture Interest:	12% of €60,000 x 9 months	=	€5,400

Question 1: - solution (continued)

40

(c)

Balance Sheet - Brophy as at 31/12/2004

Intangible Assets			€	
Patents			62,000	②
Fixed Assets	Cost	Accumulated Depreciation	Net	
	€	€	€	
Delivery Vans	42,000	16,800	25,200	
Plant & machinery	190,000	74,000	116,000	
Factory buildings	<u>500,000</u>	<u>20,000</u>	<u>480,000</u>	
	<u>732,000</u>	<u>110,800</u>	<u>621,200</u>	621,200
				683,200
Current Assets				
Closing Stocks				
Raw materials		44,000		
Work in progress		15,000		
Finished goods		<u>49,000</u>		
			108,000	
Debtors		52,400		
Less provision of bad debts		<u>2,600</u>	49,800	
Insurance prepaid			<u>4,300</u>	
			162,100	
Creditors: amounts falling due within 1 year				
Creditors		59,600		
VAT		20,400		
Bank		56,800		
Debenture interest due		<u>5,400</u>		
			<u>142,200</u>	
Working Capital				<u>19,900</u>
Total Assets				<u>703,100</u>
Financed by				
Creditors: amounts falling due after more than 1 year				
12% Debentures				60,000
Capital and Reserves		Authorised	Issued	
Ordinary shares @ €1 each		600,000	500,000	
Profit & Loss Balance 31/12/2004			<u>143,100</u>	643,000
				<u>703,100</u>

Question 2-solution

60

Tabular Statement

Assets	Nov 1	Nov 3	Nov 5	Nov 9	Nov 15	Nov 19	Nov 24	Nov 25	Nov 27	Totals
Buildings	240,000 ②									240,000
Equipment	80,000 ②					+ 8,000 ②				88,000
Stock	62,000 ②		+5,400 ②				(4,000) ②			63,400
Debtors	24,400 ②	(900) ②					+5,800 ②		(600) ②	28,700
Bank	8,600 ②	+850 ②		(4,000) ②	(2,000) ②	(1,000) ②		(200) ②	300 ②	2,550 ①
Total	415,000	(50)	+5,400	(4,000)	(2,000)	+7,000	+1,800	(200)	(300)	422,650

Liabilities	Nov 1	Nov 3	Nov 5	Nov 9	Nov 15	Nov 19	Nov 24	Nov 25	Nov 27	Totals
Capital	383,000 ②									383,000
Drawings								(200) ②		(200)
Profit/Lo		(50) ②			100 ②		+1,800 ②		(300) ②	1,550
ss	28,000 ②		+5,400 ②		(2,100) ②					31,300 ①
Creditors						+7,000 ②				7,000
Loan				(4,000) ②						
Expenses due	4,000 ②									

Total	415,000	(50)	+5,400	(4,000)	(2,000)	+7,000	+1,800	(200)	(300)	422,650
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Question 3 - solution

35

(a)

Profit and Loss Account of Sea Ltd for the year ended 31/12/2004

	€	
Net Profit for year	250,000	⑤
Less: Taxation	<u>11,000</u>	⑤
Profit after taxation	239,000	
Less: Appropriations		
General Reserve	50,000	④
Interim Ordinary Dividend 9c	63,000	④
Interim Preference Dividend for half year	8,000	④
Proposed Preference Dividends	8,000	④
Proposed Ordinary Dividend 13c	<u>91,000</u>	④
Retained profit for year	19,000	
Retained Profit 1/1/2004	<u>225,000</u>	④
Retained Profits carried forward	<u>244,000</u>	①

(b)

25

Balance Sheet extract as at 31/12/2004

	€	€	€
Fixed assets			
Current assets			
Less: Creditors: amount falling due within 1 year			
Preference Dividend due	8,000	④	
Ordinary Dividend due	91,000	④	
Taxation due	<u>11,000</u>	④	110,000
Financed by:			
Capital and reserves	Authorised		Issued
Share Capital			
Ordinary Shares of €1 each	900,000	①	700,000
4% Preference Shares of €1 each	<u>500,000</u>	①	400,000
General Reserve			390,000
Profit and loss balance			<u>244,000</u>
Shareholders Funds			1,734,000
			<u>1,734,000</u>

Question 4 - solution

(a)

30

Statement of Net Worth/ Capital as at 1/1/2004

	€	€
Assets		
Premises	490,000 ③	
Furniture & Equipment (€83,000 - €26,200)	56,800 ⑥	
Motor Vehicles	34,600 ③	
Stock	44,900 ③	
Debtors	24,000 ③	
Insurance prepaid	<u>400 ③</u>	
		650,700
Less Liabilities		
Creditors	16,500 ③	
Expenses due	1,800 ③	
Bank overdraft	<u>10,400 ③</u>	
		<u>28,700</u>
Capital/ Net Worth 1/1/2004		<u>622,000</u>

(b)

30

Statement of Profit or Loss for year ended 31/12/2004

	€
Assets	780,000 ②
Less Depreciation furniture & equipment 20%	16,600 ③
Depreciation on motor vehicles 20%	<u>6,920 ③</u>
Total Assets	<u>756,480</u>
Less Creditors: amounts falling due within one year	
Liabilities	34,000 ②
Expenses due	<u>600 ③</u>
Net worth on 31/12/2004	<u>721,880</u>
Less net worth on 1/1/2004	<u>622,000 ③</u>
Apparent profit for the year	99,880
Less Capital Introduced	<u>12,000 ④</u>
	87,880
Add Drawings	
Repairs	2,600 ③
Drawing – stock	<u>9,600 ③</u>
Net Profit for the year 2004 ②	<u>100,080 ②</u>

Question 5: solution

40

(a)

(i) **Opening Stock** $610,000 + 63,000 - 590,000$ € 83,000 10

(ii) **Percentage Mark up on cost**

$$\frac{\text{Gross Profit} \times 100}{\text{Cost of sales}} = \frac{240,000 \times 100}{610,000} = 39.34\% \quad 10$$

(iii) **Period of credit given to debtors**

$$\frac{\text{Debtors} \times 365}{\text{Credit sales}} = \frac{70,000 \times 365}{850,000} = 30 \text{ days} \quad 10$$

(iv) **Acid Test Ratio**

$$\frac{\text{Current Assets} - \text{Closing stock}}{\text{Current Liabilities}} = \frac{97,000}{94,000} = 1.03 : 1 \quad 10$$

(b)

40

(i) **8% Debentures (2008/2010)** 10

Debentures are Long-term Loans. The fixed annual rate of interest is 8%.
Loan must be repaid in one lump sum during the years 2008/2010.

(ii) **Tangible Assets:** 10

These are items of value that you can see and touch e.g. Building, Office Equipment.

(iii) **Preference Dividend:** 10

This is the portion of profits paid to Preference shareholders. It is a fixed percentage and must be paid before the ordinary dividend. Preference shareholders are not the owners of the company, they are a source of finance only. If a dividend is not paid in any year it accumulates and is paid when profits are available.

(iv) **Capital Employed** 10

This is the total amount invested in the company. It consists of shareholders' funds and long-term liabilities

(c) The above firm would **not** have difficulty paying its debts because the Current Ratio and the Acid Test Ratio of 1.70 to 1 and 1.03 to 1 respectively are close enough to the accepted norms of 2 to 1 and 1 to 1 respectively.
This means that the firm has €1.03 available immediately for each €1 owed.

10

(d) Businesses take risks and for this they expect to earn more than they could get by investing their money in risk-free securities. The Return on Capital Employed for 2004 is 18.5%. This has improved from 14% in 2003. The return currently available from banks and

10

building societies is less than 5% so the company is performing well.

Question 6: solution

20

(a)

Accumulated Fund as at 1/1/2004		
Assets	€	€
Clubhouse/Land	340,000 ②	
Equipment	9,000 ②	
Bar Stock	2,900 ②	
Investments	20,000 ②	
Subscriptions due	300 ②	
Cash in hand	<u>3,900 ②</u>	376,100
Less Liabilities		
Bar creditors	1,200 ③	
Expenses due	<u>720 ③</u>	<u>1,920</u>
Accumulated Fund as on 1/1/2004		<u>374,180 ②</u>

(b)

40

Income and Expenditure Account of Sliotar hurling club for the year ended 31/12/2004

Income		€
Bar Profit (W1)		8,360 ⑧
Interest		400 ②
Subscriptions (W2)		27,100 ⑥
Advertising receipts		10,500 ②
Raffle profit (W3)		<u>6,900 ⑤</u>
		53,260
Less Expenditure		
General expenses (W4)	25,730 ⑥	
Depreciation - Equipment 20%	3,100 ④	
Depreciation - Clubhouse 2%	<u>6,800 ④</u>	
Total Expenses		<u>35,630</u>
Surplus of Income/Expenditure		<u>17,630 ③</u>

Workings

1	Bar Trading Account	€
	Sales	44,200
	Less cost of sales	
	Stock 1/1/2004	2,900
	Purchases (32,400 + 3,400 + 740 - 1,200)	35,340
	Less stock 31/12/2004	<u>(2,400)</u>
	Bar profit	<u>8,360</u>
2	Subscriptions received	28,300
	Less amount prepaid 31/12/2004	(900)
	amount due 1/1/2004	<u>(300)</u>
		27,100
3	Profit on raffle - receipts	9,400
	Less cost of tickets and prizes	<u>(2,500)</u>
		6,900
4	General expenses	26,000

Less Expenses due 1/1/2004	(720)	
Add Expenses due 31/12/2004	<u>450</u>	25,730

Question 6: (continued)

30

(c)

Balance Sheet for Sliotar hurling club as on 31/12/2004

Fixed Assets	Cost	Depreciation	Net
	€	€	€
Clubhouse/land	340,000 ③	6,800 ②	333,200
Equipment	<u>15,500 ③</u>	<u>3,100 ②</u>	<u>12,400</u>
	<u>355,500</u>	<u>9,900</u>	345,600
Investments			<u>20,000 ②</u>
			365,600
Current Assets			
Bank		25,900 ③	
Bar stock		<u>2,400 ③</u>	
		28,300	
Creditors amount due within 1 year			
Bar Creditors	740 ③		
Expenses due	450 ③		
Subs prepaid	<u>900 ③</u>	<u>2,090</u>	
Working Capital			<u>26,210</u>
			<u>€391,810</u>
Financed by:			
Accumulated Fund 1/1/2004			374,180 ②
Add Surplus Income/Expenditure			<u>17,630 ①</u>
			<u>€391,810</u>

(d)

10

The balance in the Receipts and Payments Account merely shows the amount of cash left over on the last day of the period covered by the account. An organisation could have cash on hand but still have unpaid bills in excess of the cash balance.

The balance in the Income and Expenditure Account represents the surplus of income or excess of expenditure for the period covered by the account. It indicates whether an organisation is receiving enough income to cover its expenses for the period. The balance has been arrived at after accounting for such items as prepayments, accruals and depreciation.

Question 7 - solution.

30

(a)

Reconciliation of Operating Profit to net cash flow.

	€
Operating profit	196,000 ③
Depreciation	9,000 ⑥
Increase in Stock	(11,000) ⑥
Increase in Debtors	(17,000) ⑥
Decrease in Creditors	(6,000) ⑥
Net Cash inflow from operating activities	<u>171,000</u> ③

65

(b)

Cash Flow Statement of Belmont Ltd for the year ended 31/1220/04

	€
Operating Activities ②	
Net cash inflow from operating activities	171,000 ②
Return on investments and servicing of finance ②	
Interest paid	(5,000) ⑧
Taxation ②	
Tax paid	(34,000) ⑧
Capital Expenditure and Financial Investment ②	
Purchase of land/buildings	(80,000) ⑧
Equity / Ordinary Dividend paid ②	
Dividend paid	(28,000) ⑧
Net cash inflow before liquid resources and financing	<u>24,000</u>
Financing ②	
Issue of ordinary share capital	23,000 ⑧
Receipts from debenture loan	40,000 ⑧
Increase in cash	<u>87,000</u> ③

5

(c)

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period	87,000 ②
Cash receipt from debentures	(40,000) ①
Change in net debt	47,000 ①
Net debt at 1/1/2004 (80,000 – 11,000)	<u>(69,000)</u> ①

Net debt at 31/12/2004

(22,000)

Question 8 - solution.

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(a) Absorption rate per machine hour = $\frac{€84,000}{12,000 \text{ hrs}}$ = €7 per machine/hour **15**

(b) Absorption rate per labour hour = $\frac{€84,000}{7,000 \text{ hrs}}$ = €12 per labour/hour **15**

(c) Cost of Job No. 624

	<u>Machine Hrs</u>		<u>€</u>
Direct materials			10,000 3
Direct labour W 1			1,360 5
Factory overheads 250 Machine hours @ €7			<u>1,750</u> 5
Cost of Job			<u>€13,110</u> 4

(d) Cost of Job No. 624

	<u>Labour Hrs</u>		<u>€</u>
Direct materials			10,000 3
Direct labour W 1			1,360 5
Factory overheads 170 direct labour hrs x €12			<u>2,040</u> 5
Cost of Job			<u>€13,400</u> 4

(e) Selling Prices

	<u>Labour hrs</u>		<u>Machine hrs</u>
	<u>€</u>		<u>€</u>
Cost of Job	13,400		13,110.00
mark up 25%	<u>3,350</u>		<u>3,277.50</u>
Selling price	<u>€16,750</u> 8		<u>€16387.50</u> 8

Working 1

Budgeted direct Labour 56,000 = €8
Budgeted Labour Hours 7,000

Direct labour cost for Job 624 170 hours @ €8 = €1,360

Question 9 - solution

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(a)

	<u>Sales Budget</u>	
	<u>Roadstar</u>	<u>Climber</u>
Budgeted quantities	800	500
Budgeted selling price	€220	€290
Budgeted Sales Value	€176,000 ⑦	€145,000 ⑦

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(b)

	<u>Production Budget</u>	
	<u>Roadstar</u>	<u>Climber</u>
Budgeted sales	800	500
Add budgeted closing stock	<u>220</u>	<u>180</u>
	1,020	680
Less budgeted opening stock	<u>(240)</u>	<u>(110)</u>
Budgeted Production in units	780 ⑧	570 ⑧

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(c)

	<u>Materials Usage Budget</u>	
	<u>Material A</u>	<u>Material B</u>
Roadstar	(780 x 6 kg) 4,680 kg	6,240 kg (780 x 8 kg)
Climber	(570 x 4 kg) <u>2,280</u> kg	<u>2,850</u> kg (570 x 5 kg)
Budgeted material usage	6,960 kg ③	9,090 kg ③

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(d)

	<u>Material Purchases Budget</u>	
	<u>Material A</u>	<u>Material B</u>
Budgeted Material Usage in kg's	6,960 ①	9,090 ①
Add Budgeted Closing stock	<u>470</u> ③	<u>640</u> ③
	7,430	9,730
Less Budgeted Opening stock	<u>(400)</u> ③	<u>(560)</u> ③
Material Purchases Budget in kg's	7,030	9,170
Budgeted Purchase price per kg	<u>€12</u> ①	<u>€15</u> ①
	€84,360 ②	€137,550 ②
		€221,910

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(e)

	<u>Labour Budget</u>	
Roadstar (Production x Labour hrs per unit) (780 units x 8 hrs)		6,240 ④
Climber (Production x Labour hrs per unit) (570 units x 11 hrs)		<u>6,270</u> ④
Budgeted direct labour hours		12,510
Labour rate per hour		€14 ②
Direct labour budget in €'s		€175,140 ④

