



Coimisiún na Scrúduithe Stáit State Examinations Commission

Scéimeanna Marcála
Cuntasaíocht

Scrúduithe Ardteistiméireachta, 2007
Ardleibhéal

Marking Scheme
Accounting

Leaving Certificate Examination, 2007
Higher Level



**Coimisiún na Scrúduithe Stáit
State Examinations Commission**

LEAVING CERTIFICATE ACCOUNTING

HIGHER LEVEL

MARKING SCHEME

LEAVING CERTIFICATE ACCOUNTING

HIGHER LEVEL

Marking Scheme - 2007

INTRODUCTION

The solutions and marking schemes for Accounting Higher Level are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in brackets 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 a calculation in section (a) is incorrect, allowance is made for this in subsequent sections.

Accounting Higher Level - 2007

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Question 1 - solution

Trading and Profit and Loss Account for the year ending 31/12/2006

		€	€	€
Sales				1,760,000 [3]
Less Cost of Sales				
Stock			75,200 [3]	
Add Purchases	W 1		<u>1,211,000 [8]</u>	
			1,286,200	
Less Stock 31/12/2006	W 2		<u>(81,200) [4]</u>	<u>(1,205,000)</u>
Gross Profit				555,000
Less Expenses				
Administration				
Patent written off	W 3	6,400 [4]		
Salaries and General expenses	W 4	180,600 [3]		
Directors fees		48,000 [2]		
Rent		19,600 [2]		
Depreciation – Buildings		<u>18,640 [3]</u>	273,240	
Selling and Distribution				
Bad Debts written off		1,750 [3]		
Advertising	W 5	15,700 [6]		
Depreciation –Delivery van	W 6	38,000 [4]		
Increase in bad debts provision	W 7	<u>716 [4]</u>	<u>56,166</u>	<u>(329,406)</u>
				225,594
Add Operating Income				
Discount	W 8		11,500 [4]	
Profit on Sale of Van	W 9		<u>3,250 [4]</u>	<u>14,750</u>
Operating Profit				240,344
Investment Income	W 10			<u>28,800 [3]</u>
				269,144
Debenture Interest	W 11			<u>(14,400) [3]</u>
Net Profit				254,744
Less Appropriations				
Preference Dividend paid			20,000 [2]	
Ordinary dividend paid			28,000 [2]	
Preference dividend due			20,000 [2]	
Ordinary dividend due			<u>60,000 [2]</u>	<u>(128,000)</u>
Retained Profit				126,744
Profit and Loss Balance 1/1/2006				<u>(17,200) [1]</u>
Profit and Loss Balance 31/12/2006				<u>109,544 [3]</u>

Question 1- solution – (continued)**45****Balance Sheet as at 31/12/2006**

	Cost	Acc.Dep	Net	Total
	€	€	€	€
Intangible Fixed Assets				
Patents (32,000 – 6,400)				25,600 [3]
Tangible Fixed Assets				
Buildings W12	932,000 [3]	18,640 [1]	913,360	
Delivery Vans W13 & 14	<u>312,000 [3]</u>	<u>110,750 [3]</u>	<u>201,250</u>	
	<u>1,244,000</u>	<u>129,390</u>	<u>1,114,610</u>	1,114,610
Financial Assets				
9% Investments				<u>320,000 [2]</u>
				1,460,210
Current Assets				
Stock W15		81,200 [2]		
Debtors	97,900 [2]			
Less provision	<u>(3,916) [1]</u>	93,984		
Insurance Company		52,000 [1]		
Investment income due		<u>21,600 [3]</u>	248,784	
Creditors: Amounts falling due within one year				
Creditors W16		86,690 [3]		
Bank W17		43,160 [5]		
Preference dividend due		20,000 [2]		
Ordinary dividend due		60,000 [2]		
Debenture interest due		<u>9,600 [3]</u>	<u>(219,450)</u>	<u>29,334</u>
				<u>1,489,544</u>
Financed by				
Creditors: amounts falling due after more than one year				
8% Debentures				180,000 [2]
Capital and Reserves		Authorised	Issued	
Ordinary shares @ €1 each		1,200,000	800,000 [2]	
11% Preference shares @ €1 each		<u>600,000</u>	<u>400,000 [2]</u>	
		<u>1,800,000</u>	1,200,000	
Profit and Loss Balance			<u>109,544</u>	<u>1,309,544</u>
Capital Employed				<u>1,489,544</u>

Question 1 - workings

1. Purchases	$1,320,000 - 46,000 - 12,000 - 51,000$	1,211,000
2. Closing stock	$85,200 - 4,000$	81,200
3. Patent	$(24,800 + 7,200) \div 5$	6,400
4. Salaries and Gen. expenses	$199,600 - 19,000$	180,600
5. Advertising	$14,800 + 200 + 700$	15,700
6. Depreciation Delivery van	$32,000 + 750 + 5250$ $8,750 + 29,250$	38,000
7. Provision for bad debts	$3,912 - 3,200$	716 dr
8. Discount	$10,800 + 700$	11,500
9. Profit on sale of van	$24,000 - 10,000 - 17,250$	3,250
10. Investment Income	$21,600 + 7,200$	28,800
11. Debenture Interest	$5,000 - 200 + 9,600$	14,400
12. Buildings	$902,000 - 40,000 + 70,000$	932,000
13. Delivery vans at cost	$280,000 + 56,000 - 24,000$	312,000
14. Provision for Dep. – Vans	$90,000 + 38,000 - 17,250$	110,750
15. Debtors	$100,400 - 2,500$	97,900
16. Creditors	$86,600 + 90$	86,690
17. Bank Overdraft as per trial balance	$44,000 - 90 - 750$ $42,760 + 400$	43,160

Question 2 - solution

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Adjusted Debtors Ledger Control Account

	€		€
Balance b/d	30,000 [1]	Balance b/d	530 [1]
Discount disallowed (i)	92 [3]	Interest (ii)	70 [4]
Restocking charge (vi)	12 [4]	Credit note (iv)	520 [4]
Balance c/d	530 [1]	Sales overstated (v)	90 [4]
		Balance c/d	29,424
	<u>30,634</u>		<u>30,634</u>
Balance b/d	29,424	Balance b/d	530

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Schedule of Debtors Accounts Balances

		€	€
Balance as per list of debtors			24,734 [4]
<u>Add</u>			
Sales – cash and credit error (iii)	3,240 [5]		
Sales (v)	1,560 [5]		4,800
			<u>29,534</u>
<u>Deduct</u>			
Interest (ii)	50 [5]		
Credit note (iv)	572 [5]		
Reduction in charge (vi)	18 [5]		640
Net Balance as per adjusted Control Account			<u>28,894 [1]</u>

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(c)

(i) **Contra Item [5]**

A contra item is an offset of a debtor against a creditor where debtor and creditor are the same person

(ii) **Opening Balance €530 [3]**

- A full payment of a debt followed by a credit note (returns or reduction)
- Over payment of a debt
- Full payment followed by discount

Question 3 - Solution

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(a)

Land and Buildings Account

	€		€
01/01/02 Balance b/d	670,000 [1]	31/12/02 Balance c/d	810,000
01/01/02 Revaluation Res.	<u>140,000 [1]</u>		<u>810,000</u>
	<u>810,000</u>		
01/01/03 Balance b/d	810,000	01/01/03 Disposal	290,000 [1]
	<u>810,000</u>	31/12/03 Balance c/d	<u>520,000</u>
			<u>810,000</u>
01/01/04 Balance b/d	520,000 [1]	31/12/04 Balance c/d	1,220,000
Bank	470,000 [1]		
Bank	150,000 [1]		
Wages	<u>80,000 [1]</u>		
	<u>1,220,000</u>		<u>1,220,000</u>
01/01/05 Balance b/d	1,220,000	31/12/05 Balance c/d	1,403,000
01/01/05 Revaluation Reserve	<u>183,000 [2]</u>		<u>1,403,000</u>
	<u>1,403,000</u>		
01/01/06 Balance b/d	1,403,000	01/01/06 Disposal	598,000 [3]
01/01/06 Revaluation Reserve	<u>55,000 [3]</u>	31/12/06 Balance c/d	<u>860,000</u>
	<u>1,458,000</u>		<u>1,458,000</u>

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Provision for Depreciation on Buildings Account

	€		€
01/01/02 Revaluation Res.	68,800 [2]	01/01/02 Balance b/d	68,800 [2]
31/12/02 Balance c/d	<u>10,400</u>	31/12/02 Profit and Loss	<u>10,400 [2]</u>
	<u>79,200</u>		<u>79,200</u>
31/12/03 Balance c/d	20,800	01/01/03 Balance b/d	10,400
	<u>20,800</u>	31/12/03 Profit and Loss	<u>10,400 [2]</u>
			<u>20,800</u>
31/12/04 Balance c/d	45,200	01/01/04 Balance b/d	20,800
	<u>45,200</u>	31/12/04 Profit and Loss	<u>24,400 [2]</u>
			<u>45,200</u>
01/01/05 Revaluation Res.	45,200 [2]	01/01/05 Balance c/d	45,200
31/12/05 Balance c/d	<u>28,060</u>	31/12/05 Profit and Loss	<u>28,060 [2]</u>
	<u>73,260</u>		<u>73,260</u>
01/01/06 Disposal	11,960 [2]	01/01/06 Balance b/d	28,060
01/01/06 Revaluation Res.	16,100 [3]	31/12/06 Profit and Loss	<u>17,200 [2]</u>
31/12/06 Balance c/d	<u>17,200</u>		<u>42,400</u>
	<u>42,400</u>	01/01/07 Balance b/d	17,200

Question 3 – Solution – (continued)

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Disposal of Land Account

	€		€
01/01/03 Land and Buildings	290,000 [1]	01/01/03 Bank	340,000 [1]
31/12/03 P & L a/c -(Profit)	<u>50,000 [1]</u>		<u>340,000</u>
	<u>340,000</u>		

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Disposal of Buildings Account

	€		€
01/01/06 Land and Buildings	598,000 [1]	01/01/06 Depreciation	11,960 [1]
31/12/06 P & L (Profit)	<u>73,960 [1]</u>	01/01/06 Bank	<u>660,000 [1]</u>
	<u>671,960</u>		<u>671,960</u>

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Revaluation Reserve Account

	€		€
01/01/03 Revenue reserve	50,000 [1]	01/01/02 Land and Buildings	140,000 [1]
01/01/06 Revenue reserve	268,000 [1]	Provision for Dep	68,800 [1]
Balance	190,100 [2]	01/01/05 Land and Buildings	183,000 [1]
		Provision for Dep	45,200 [1]
		01/01/06 Land and Buildings	55,000 [1]
		Provision for Dep	<u>16,100 [1]</u>
	<u>508,100</u>		<u>508,100</u>

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Revenue Reserve Account

	€
01/01/03 Revaluation reserve	50,000 [1]
01/01/06 Revaluation reserve	<u>268,000 [1]</u>
	<u>318,000</u>

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Balance Sheet as at 31/12/2006

	€	€	€
Fixed Assets			
Land and Buildings	860,000 [1]	17,200 [1]	842,800 [1]
Capital and Reserves			
Revaluation Reserve			[1] 190,000
Revenue reserve			[1] 318,000

Question 4 - solution

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	1/1/2006	Jan	Feb	Mar	Apr	May	Aug	Dec 31/12/2006
	€	€	€	€	€	€	€	€
Land & Buildings	414,000	106,000 ^[2]	300,000 ^[1]					820,000
Depreciation	(12,420)	12,420 ^[2]					(14,300) ^[3]	(14,300)
Vehicles	68,400		50,000 ^[1]		19,000 ^[2]			137,400
Depreciation	(29,700)				4,500 ^[2]		(20,000) ^[2]	(45,200)
Goodwill			8,000 ^[2]					8,000
Stock	53,820		20,000 ^[1]	12,500 ^[2]				86,320
Debtors	55,530			(13,500) ^[2]			300 ^[2]	42,330
Advertising prepaid	1,350					3,000 ^[2]	(3,100) ^[2]	1,250 ^[1]
	550,980	118,420	378,000	(1000)	23,500	3,000	300 (37,400)	1,035,800
Ordinary Shares	387,000		290,000 ^[2]					677,000
Share Prem.	36,000		58,000 ^[2]					94,000
P&L Bal	58,050			(1000) ^[1]	(500) ^[1]		1,000 ^[2] (14,300) ^[1] (20,000) ^[1] (3,100) ^[1] 2,000 ^[1]	22,150 ^[3]
Creditors	58,680		30,000 ^[1]					88,680
Bank	9,090				24,000 ^[2]	500 ^[2]	(700) ^[2]	32,890 ^[2]
Wages due	2,160							2,160
Revaluation Reserve		118,420 ^[3]						118,420
Rent Rec.						2,500 ^[2]	(2,000) ^[1]	500 ^[1]
	550,980	118,420	378,000	(1000)	23,500	3,000	300 (37,400)	1,035,800

Question 5 – solution

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Cash Purchases

$$\text{Credit Purchases} = \frac{102,000 \times 12}{2.4} = \text{€}510,000$$

$$\text{Cash Purchases} = 620,000 - 510,000 = 110,000 \text{ [9]}$$

Interest Cover

$$\frac{\text{Net profit before interest}}{\text{Interest}} = \frac{60,000}{27,000} = 2.22 \text{ times [8]}$$

Dividend Yield

$$\frac{\text{DPS} \times 100}{\text{Market Price}} = \frac{4.92\text{c} \times 100}{120\text{c}} = 4.1\% \text{ [12]}$$

Period to recoup price

$$\frac{\text{Market price}}{\text{Dividend per share}} = \frac{120}{4.92} = 24.39 \text{ years [8]}$$

Projected Market Value of Ordinary Share

$$\text{Price Earnings Ratio} \times \text{Earnings per Share} = 14 \times 8\text{c} = \text{€}1.12 \text{ [8]}$$

(b)

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Performance [15]

The ROCE and ROEF of 6.5% and 4.8% respectively are both disappointing. [8]
The ROCE of 6.5% is only marginally better than the return from risk free investments of around 5%. This indicates an inefficient use of funds and shareholders would be unhappy.
The Return on Equity Funds of 4.8% is less than the Return from risk free investments.

The dividend per share is 4.92c and the dividend Yield is 4.1%. This yield is less than the Return [7]
from risk free investments of about 5%.
Dividend Cover is 1.125 times indicating that a very small percentage of the profits is being retained.
The Dividend Cover is low to maintain the yield at 4.1%.

State of Affairs [10]

Liquidity: The Acid Test ratio of 0.99 to 1 shows that the company is liquid. [5]
For every €1 of short-term debt, the company has 99c available in liquid assets .

Gearing: The company is highly geared at 59.6%. This indicates that the company is dependent on [5]
outside borrowings and therefore at risk from outside investors. The Interest Cover is 2.2 times.

Prospects [10]

1 point @ 4 marks is compulsory and
3 others at 2 marks each

Market Value: The Market value of Ordinary Share was 1.20 and is projected to fall [4]
to €1.12 - a **fall** of 6.6% in value.
The shareholders would be unhappy with this as it indicates a lack of market confidence
in the company.

ROCE: The ROCE of 6.5% is expected to rise to 8.5%. [2]
This represents an improving prospect.

Liquidity: The Acid Test figure of 0.99 to 1 is expected to rise to 1.1 to 1 [2]
a slight improvement.

Gearing: The company is highly geared at 59.6% indicating that it is dependent on outside [2]
borrowing and therefore at risk. The gearing will improve in 2007, the projected figure being
58% which is still high but the trend is good.

Sector: The company is in the pharmaceutical sector. With an aging and increasingly
health conscious population, prospects are good

(c)

Bank Loan Application**Yes/No [2]**

2 points at 5 marks each (Gearing and ROCE)
2 points at 4 marks each

Gearing [5]

The company is highly geared
The gearing will get worse with a further loan of 150,000.
The gearing with the loan will be 65%.
The Interest Cover will get worse

Return on Capital Employed [5]

The ROCE will be 8.5% next year
which is less than the 10% interest to be charged on the loan.

Dividend Cover/policy [4]

The Dividend Cover is 1.1 times and is projected to increase to 1.31 times.
The Dividend Cover is low
Not enough of earnings are retained for repayment of the loan.

Purpose for which loan is required [4]

The loan is required for future expansion
and should generate extra income to service the loan.

Security

The Fixed Assets are valued at 680,000
but one should question depreciation policy to ascertain the real value of the assets.
The Investments alone have a market value of 210,000
which would provide security for the loan of 150,000.
The security is adequate.

Liquidity

The liquidity ratio of 0.99 to 1
It is expected to improve to 1.1 to 1 in 2007.
However the extra interest payment will cause this to be less favourable

Question 6 – solution**20****(a)****Statement of Capital and Reserves on 1/1/2006**

Assets	€	€
Buildings and grounds (500,000 – 20,000)	480,000 [2]	
Equipment (70,000 – 21,000)	49,000 [2]	
Furniture (20,000 – 10,000)	10,000 [2]	
Investments	70,000 [1]	
Stock – health food for resale	1,300 [1]	
Stock – oil	640 [1]	
Contract cleaning prepaid	250 [1]	
Cash at bank	<u>7,250 [1]</u>	618,440
Liabilities		
Creditors for supplies	1,250 [1]	
Customers advance deposits	4,300 [1]	
Loan	50,000 [2]	
Interest on loan (14 months @ €400 per month)	5,600 [2]	
Issued Capital	<u>300,000 [1]</u>	(361,150)
Reserves 1/1/2006		<u>257,290 [2]</u>

(b)**Health Shop Profit and Loss Account for the year ended 31/12/2006**

	€	€
Shop receipts		65,000 [2]
Less expenses		
Cost of goods sold (1,300 + 42,100 – 1,600)	41,800 [5]	
Light and heat	200 [1]	
Insurance	500 [1]	
Telephone	340 [1]	
Wages and salaries (70% x 12,000)	<u>8,400 [2]</u>	<u>51,240</u>
Profit from Health shop		<u>13,760</u>

(c)**Profit and Loss Account for year ended 31/12/2006**

Income			
Interest received		3,500 [1]	
Profit from health shop		13,760 [1]	
Customer's fees	W 1	<u>254,350 [5]</u>	271,610
Less Expenses			
Wages and salaries (86,220 – 8,400)		77,820 [2]	
Insurance (6,200 – 500)		5,700 [1]	
Light and heat	W 2	3,260 [5]	
Purchases – supplies	W 3	36,950 [3]	
Loan interest	W 4	1,600 [3]	
Laundry		800 [1]	
Postage and telephone (1,660 – 340)		1,320 [1]	
Depreciation – Buildings		11,400 [1]	
Equipment		12,600 [1]	
Furniture		5,000 [1]	
Contract cleaning	W 5	<u>2,550 [3]</u>	(159,000)
Net Profit for year			112,610 [6]
Add Reserves 1/1/2006			<u>257,290 [1]</u>
Profit and Loss balance 31/12/2006			<u>369,900</u>

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(d)

Balance Sheet as at 31/12/2006

	Cost €	Depreciation €	Net €
Fixed Assets			
Buildings and grounds	680,000 [1]	-	680,000
Equipment (70,000 + 14,000)	84,000 [2]	33,600 [2]	50,400
Furniture	<u>20,000 [1]</u>	<u>15,000 [2]</u>	<u>5,000</u>
	<u>784,000</u>	<u>48,600</u>	735,400
Investments			<u>70,000 [2]</u>
			805,400
Current Assets			
Investment income due	500 [2]		
Closing stock – shop goods	1,600 [1]		
Oil	250 [1]		
Cleaning prepaid	300 [2]		
Customer's fees due (450 +100)	550 [3]		
Bank	W 6 <u>7,370 [2]</u>	10,570	
Less Creditors: amounts falling due within 1 year			
Electricity due	270 [2]		
Customer's advance deposits	3,000 [2]		
Creditors for supplies	<u>1,400 [2]</u>	<u>(4,670)</u>	<u>5,900</u>
			<u>811,300</u>
Financed by			
Share Capital and Reserves	Authorised	Issued	
Ordinary Shares	<u>430,000 [1]</u>	300,000 [1]	
Revaluation Reserve		141,400 [3]	
Profit and Loss balance		<u>369,900</u>	<u>811,300</u>
			<u>811,300</u>

Workings

W 1	Customer's fees	€	€	
	Amount received	252,600	252,600	
	Less Dishonoured cheque	(100)	-	
	Fees due	550	450	
	Advance deposits	4,300	4,300	
	Less fees prepaid	<u>(3,000)</u>	<u>(3,000)</u>	
				254,350
W 2	Light and heat			
	Amount paid		2,800	
	Stock oil 1/1/2006		640	
	Electricity due		270	
	Stock oil 31/12/2006		(250)	
	Charge to shop		<u>(200)</u>	3,260
W 3	Purchases	36,800 + 1,400 – 1,250		36,950
W 4	Loan Interest	7,200/18 x 4		1,600
W 5	Contract cleaning	2,600 +250 – 300		2,550
W 6	Bank	7,470–100		7,370

Question 7 - solution

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Trading and Profit and loss Account for the year ended 31/12/2006

	€	€
Sales		374,800 [11]
Less Cost of Sales		
Opening stock	19,000 [2]	
Purchases (156,200 – 7,800)	<u>148,400 [7]</u>	
	167,400	
Closing stock	<u>(16,400)[2]</u>	(151,000)
Gross Profit		223,800
Less Expenses		
General expenses	71,200 [5]	
Insurance	6,700 [6]	
Interest	2,400 [4]	
Light and heat	<u>4,410 [6]</u>	84,710
		139,090
Add Income from Investment Fund		<u>25 [3]</u>
Net Profit		<u>139,115 [6]</u>

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(b)

Balance Sheet as at 31/12/2006

	€	€	€
Intangible Fixed Assets			
Goodwill			18,000 [3]
Tangible Fixed Assets			
Buildings	715,000 [2]		
Delivery Vans	28,400 [1]		
Furniture	<u>10,500 [2]</u>		753,900
Financial Assets			
Investment Fund			<u>4,825 [2]</u>
			776,725
Current Assets			
Stock	16,400 [1]		
Debtors	20,200 [1]		
Bank	104,550 [5]		
Cash	400 [2]		
Prepayments (Insurance)	<u>1,700 [3]</u>	143,250	
Creditors: amounts falling due within 1 year			
Creditors	30,400 [1]		
Interest due	750 [3]		
Electricity due	<u>480 [1]</u>	<u>(31,630)</u>	111,620
			<u>888,345</u>
Financed By			
Creditors: Amounts falling due after more than one year			
Loan			180,000 [2]
Capital	590,000 [2]		
Capital introduced	3,000 [3]		
Net Profit	<u>139,115</u>		
	732,115		
Less Drawings	<u>(23,770)[6]</u>		708,345
			<u>888,345</u>

(c)

(i) **Accounting concepts**

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

(ii) **Fundamental Accounting concepts**

Accruals, Going Concern, Consistency and Prudence

- (iii) **The accruals Concept** – All expenses incurred in a particular period must be included in the accounts of that period regardless of whether they are paid or not. Similarly, all revenue income must be included in the accounts of that period whether received or not. E.g Electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Insurance prepaid should not be included in the current year's accounts as the payment refers to the following year.

Workings

1. Sales – Credit	(61,000 + 20,200 – 12,000)	69,200
– Cash	(116,000 + 73,800 + 105,200 + 10,400 + 400 – 200)	<u>305,600</u>
Total Sales		374,800
2. Purchases		
Credit purchases	(-18,200 + 30,400 + 38,800)	51,000
Cash purchases		<u>105,200</u>
Total Purchases		156,200
Less drawings of stock		<u>(7,800)</u>
Total purchases		148,400
3. General Expenses	(73,800 – 2,600)	71,200
4. Insurance	(1,600 + 6,800 – 1,700)	6,700
5. Interest	(3,000 – 600)	2,400
6. Light and heat	(5,400 + 480 – 1,470)	4,410
7. Drawings	(7,800 + 10,400 + 1,470 + 600 + 3,500)	23,770

Question 8 - Solution

(a)

(i) **29**

Overhead	Basis	Total	Production		Service	
			Dept 1	Dept 2	Dept A	Dept B
Dep of Equipment	Book value	[1] 16,000	6,000[1]	4,000[1]	2,000[1]	4,000[1]
Dep of Factory	Floor area	[1] 20,000	6,000[1]	8,000[1]	4,000[1]	2,000[1]
Factory heating	Volume	[1] 9,600	2,400[1]	4,800[1]	1,600[1]	800[1]
Factory cleaning	Floor area	[1] 2,000	600[1]	800[1]	400[1]	200[1]
Canteen	No. employees	[1] 10,800	3,600[1]	3,600[1]	1,800[1]	1,800[1]
		58,400	18,600[1]	21,200[1]	9,800[1]	8,800[1]

(ii) **8**

	Production		Service	
	Dept 1	Dept 2	Dept A	Dept B
Total Cost	18,600	21,200	9,800	8,800
Apportion Dept A to Production	7,350[2]	2,450[2]	(9,800)	
Apportion Dept B to Production	6,600[2]	2,200[2]		(8,800)
	32,550	25,850		

(iii) **8**

Machine hour absorption rate

Dept 1	$\frac{32,550}{3,000}$	=	€10.85 per machine hour	[4]
Dept 2	$\frac{25,850}{1,000}$	=	€25.85 per machine hour	[4]

(iv) **2**

Re-apportionment:

This is the term used where Service Department costs are re-apportioned between production departments because overheads can only be recovered by being included as part of the cost of production.

(v) **4**

Over-absorption:

Over-absorption is when costs are over recovered – budgeted costs are greater than actual costs. The cost of fuel/power reduced

(b)

(i) **15**

Purchases in units	Cost	Purchases at cost	
3,200	@ €5	16,000	
2,100	@ €7	14,700	
2,000	@ €8	16,000	
<u>1,400</u>	@ €9	<u>12,600</u>	
8,700 Total		€59,300	Total

Credit Sales Units	Credit Sales €	Cash Sales Units	Cash Sales €	Total Sales Units	Total sales €
800 @ 10	8,000	1,000 @ 11	11,000	1,800	19,000
1,000 @ 11	11,000	1,200 @ 10	12,000	2,200	23,000
1,200 @ 11	13,200	1,200 @ 12	14,400	2,400	27,600
<u>1,100 @ 13</u>	<u>14,300</u>	<u>1,000 @ 13</u>	<u>13,000</u>	<u>2,100</u>	<u>27,300</u>
4,100	46,500	4,400	50,400	8,500	96,900

Closing Stock in Units = Opening Stock 3,500 + Purchases 8,700 – Sales 8,500 = **3,700 units** [5]

Closing Stock in €	1,400 @ €9	=	12,600 [2]
	2,000 @ €8	=	16,000 [2]
	<u>300 @ €7</u>	=	<u>2,100 [2]</u>
	<u>3,700</u>		<u>30,700 [4]</u>

(ii) **14**

Trading account for the year ending 31/12/2006

Sales	€	€
		96,900 [3]
Less cost of Sales		
Opening Stock	17,500 [2]	
Purchases	<u>59,300 [3]</u>	
	76,800	
Closing Stock	<u>30,700 [2]</u>	(46,100)
Gross Profit		<u>50,800 [4]</u>

Question 9 – solution

(a) **58**

Cash Budget – July to December

Receipts	Jul	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales Rec	121,125 [1]	125,400 [1]	165,300 [1]	168,150 [1]	171,000 [1]	185,820 [1]	936,795
Credit Sales 1 month		148,750 [1]	154,000 [1]	203,000 [1]	206,500 [1]	210,000 [1]	922,250
Credit Sales 2 months			148,750 [1]	154,000 [1]	203,000 [1]	206,500 [1]	712,250
	121,125	274,150	468,050	525,150	580,500	602,320	2,571,295
Payments							
Purchases		98,000 [1]	105,350 [1]	123,480 [1]	127,400 [1]	171,500 [1]	625,730
Purchases			100,000 [1]	107,500 [1]	126,000 [1]	130,000 [1]	463,500
Wages	35,000 [3]	35,000	35,000	35,000	35,000	35,000	210,000
Variable overhead	85,000 [1]	88,000 [1]	116,000 [1]	118,000 [1]	120,000 [1]	130,400 [1]	657,400
Fixed overhead	41,250 [2]	41,250 [1]	41,250 [1]	41,250 [1]	41,250 [1]	41,250 [1]	247,500
Equipment	45,000 [1]						45,000
Interest	333 [2]	333 [1]	333 [1]	333 [1]	333 [1]	333 [1]	1,998
	206,583	262,583	397,933	425,563	449,983	508,483	2,251,128
Net monthly cash flow	(85,458) [1]	11,567 [1]	70,117 [1]	99,587 [1]	130,517 [1]	93,837 [1]	320,167
Bank Loan	40,000 [1]						40,000
Opening balance		(45,458) [1]	(33,891)	36,226	135,813	266,330	
Closing balance	(45,458)	(33,891)	36,226	135,813	266,330	360,167 [2]	360,167

(b) **14**

Budgeted Profit and Loss Account for 6 months ending 31/12/2007

	€	€
Sales (65,740 @ 50)		3,287,000 [2]
<u>Less Cost of Sales</u>		
Material	1,633,000 [1]	
Labour (6 x 35,000)	210,000 [1]	
Variable overhead	657,400 [1]	
Fixed overhead (6 x €41,250)	247,500 [1]	(2,747,900)
Gross Profit		539,100
Depreciation – equipment	4,500 [1]	
Discount allowed (€3,287,000 x 30% x 5%)	49,305 [2]	(53,805)
		485,295
<u>Add Discount Received</u>		12,770 [2]
		498,065
<u>Less interest</u>		(2,000) [1]
Net Profit		496,065 [2]

(c) **8**

A cash budget is a forecast or plan of cash inflow and cash outflow over a period

Advantages:

Highlights whether enough cash will be available to meet future needs

Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs

Helps to predict future surpluses so that short-term investment can be made

