Coimisiún na Scrúduithe Stáit
State Examinations Commission

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Cuntasaíocht	**Ardleibhéal**

Marking Scheme	Leaving Certificate Examination, 2007
Accounting	**Higher Level**

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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		1,211,000 [8]	
			1,286,200	
Less Stock 31/12/2006	W 2		(81,200)[4]	(1,205,000)
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		18,640 [3]	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	716 [4]	56,166	(329,406)
				225,594
Add Operating Income				
Discount	W 8		11,500 [4]	
Profit on Sale of Van	W 9		3,250 [4]	14,750
Operating Profit				240,344
Investment Income	W 10			28,800 [3]
				269,144
Debenture Interest	W 11			(14,400)[3]
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			60,000 [2]	(128,000)
Retained Profit				126,744
Profit and Loss Balance 1/1/2006				(17,200)[1]
Profit and Loss Balance 31/12/2006				109,544 [3]

Question 1- solution – (continued)

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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	312,000 [3]	110,750 [3]	201,250	
		1,244,000	129,390	1,114,610	1,114,610
Financial Assets					
9% Investments					320,000 [2]
					1,460,210
Current Assets					
Stock	W15		81,200 [2]		
Debtors		97,900 [2]			
Less provision		(3,916) [1]	93,984		
Insurance Company			52,000 [1]		
Investment income due			21,600 [3]	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			9,600 [3]	(219,450)	29,334
					1,489,544
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			600,000	400,000 [2]	
			1,800,000	1,200,000	
Profit and Loss Balance				109,544	1,309,544
Capital Employed					1,489,544

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) ÷ 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
	30,634		30,634
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]
Add	Sales – cash and credit error	(iii)	3,240 [5]	
	Sales	(v)	1,560 [5]	4,800
				29,534
Deduct	Interest	(ii)	50 [5]	
	Credit note	(iv)	572 [5]	
	Reduction in charge	(vi)	18 [5]	640
Net Balance as per adjusted Control Account				28,894 [1]

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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

(a) **15**

Land and Buildings Account

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

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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	10,400	31/12/02	Profit and Loss	10,400 [2]
		79,200			79,200
31/12/03	Balance c/d	20,800	01/01/03	Balance b/d	10,400
			31/12/03	Profit and Loss	10,400 [2]
		20,800			20,800
31/12/04	Balance c/d	45,200	01/01/04	Balance b/d	20,800
			31/12/04	Profit and Loss	24,400 [2]
		45,200			45,200
01/01/05	Revaluation Res.	45,200 [2]	01/01/05	Balance c/d	45,200
31/12/05	Balance c/d	28,060	31/12/05	Profit and Loss	28,060 [2]
		73,260			73,260
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	17,200 [2]
31/12/06	Balance c/d	17,200			
		42,400			42,400
			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)	50,000 [1]			
		340,000			340,000

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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)	73,960 [1]	01/01/06	Bank	660,000 [1]
		671,960			671,960

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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	16,100 [1]
		508,100			508,100

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Revenue Reserve Account

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

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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

Credit Purchases_	=	$\frac{102{,}000 \times 12}{2.4}$	=	€510,000
Cash Purchases	=	620,000 – 510,000	=	110,000 **[9]**

Interest Cover

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

Dividend Yield

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

Price Earnings Ratio x Earnings per Share = 14 x 8c = €1.12 **[8]**

(b) **35**

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 from risk free investments of about 5%. [7]
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 outside borrowings and therefore at risk from outside investors. The Interest Cover is 2.2 times. [5]

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 to €1.12 - a **fall** of 6.6% in value. [4]
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 a slight improvement. [2]

Gearing: The company is highly geared at 59.6% indicating that it is dependent on outside 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. [2]

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

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(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

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(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		7,250	[1]	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		300,000	[1]	(361,150)	
Reserves 1/1/2006				**257,290**	[2]

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(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)	8,400	[2]	51,240	
Profit from Health shop			13,760	

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(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	254,350	[5]	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	2,550	[3]	(159,000)	
Net Profit for year				112,610	[6]
Add Reserves 1/1/2006				257,290	[1]
Profit and Loss balance 31/12/2006				369,900	

(d) 32

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		20,000 [1]	15,000 [2]	5,000
		784,000	48,600	735,400
Investments				70,000 [2]
				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	7,370 [2]	10,570	
Less Creditors: amounts falling due within 1 year				
Electricity due		270 [2]		
Customer's advance deposits		3,000 [2]		
Creditors for supplies		1,400 [2]	(4,670)	5,900
				811,300
Financed by				
Share Capital and Reserves		**Authorised**	**Issued**	
Ordinary Shares		430,000 [1]	300,000 [1]	
Revaluation Reserve			141,400 [3]	
Profit and Loss balance			369,900	811,300
				811,300

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	(3,000)	(3,000)	
				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		(200)	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)	148,400 [7]	
	167,400	
Closing stock	(16,400)[2]	(151,000)
Gross Profit		223,800
Less Expenses		
General expenses	71,200 [5]	
Insurance	6,700 [6]	
Interest	2,400 [4]	
Light and heat	4,410 [6]	84,710
		139,090
Add Income from Investment Fund		25 [3]
Net Profit		139,115 [6]

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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	10,500 [2]		753,900
Financial Assets			
Investment Fund			4,825 [2]
			776,725
Current Assets			
Stock	16,400 [1]		
Debtors	20,200 [1]		
Bank	104,550 [5]		
Cash	400 [2]		
Prepayments (Insurance)	1,700 [3]	143,250	
Creditors: amounts falling due within 1 year			
Creditors	30,400 [1]		
Interest due	750 [3]		
Electricity due	480 [1]	(31,630)	111,620
			888,345
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		139,115	
		732,115	
Less Drawings		(23,770)[6]	708,345
			888,345

(c)

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(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) 305,600
   Total Sales **374,800**

2. **Purchases**

Credit purchases (-18,200 + 30,400 + 38,800)	51,000
Cash purchases	105,200
Total Purchases	156,200
Less drawings of stock	(7,800)
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 Dept 1	Production Dept 2	Service Dept A	Service 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 Dept 1	Production Dept 2	Dept A	Service 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	
1,400	@ €9	12,600	
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
1,100	@ 13	14,300	1,000 @ 13	13,000	2,100	27.300
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]
	300 @ €7	=	2,100 [2]
	3,700		30,700 [4]

(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	59,300 [3]	
	76,800	
Closing Stock	30,700 [2]	(46,100)
Gross Profit		50,800 [4]

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]
Less Cost of Sales		
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
Add Discount Received		12,770 [2]
		498,065
Less interest		(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