Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2009

MARKING SCHEME

ACCOUNTING

HIGHER LEVEL

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LEAVING CERTIFICATE ACCOUNTING - 2009

Higher Level Marking Scheme

INTRODUCTION

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

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 not as 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.

Question 1

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Manufacturing Account of Blenheim Ltd for the year ended 31/12/2008 [1]

		€	€
Opening stock of raw materials		45,000 [1]	
Purchases of raw materials	**W 2**	447,250 [3]	
Carriage on raw materials		6,300 [1]	
		498,550	
Less closing stock of raw materials		49,000 [1]	
Cost of raw materials consumed			449,550
Direct costs			
Direct factory wages	**W 3**	235,460 [4]	
Hire of special equipment		10,000 [2]	245,460
Prime cost			695,010
Factory Overheads			
General factory overheads		60,200 [2]	
Patents written off	**W 12**	15,000 [2]	
Depreciation – Factory buildings	**W 4**	11,500 [3]	
Depreciation – Plant and machinery	**W 5**	55,400 [3]	
Loss on sale of machine	**W 6**	2,050 [4]	144,150
Factory cost			839,160
Work in progress 1/1/2008			21,250 [2]
Less Work in progress 31/12/2008			(26,450) [2]
			833,960
Less Sale of scrap material	**W 9**		(3,700) [3]
Cost of Manufacture			830,260

Trading and Profit and loss account for the year ended 31/12/2008

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			€	€
Sales	W 1			1,077,200 [4]
Less Cost of goods sold				
Opening stock of finished goods			84,500 [2]	
Add Cost of manufacture			830,260 [2]	
			914,760	
Less Closing stock of finished goods	W 10		(94,500) [6]	(820,260)
Gross profit				256,940
Less Expenses				
Administration				
Administration expenses	W 11		22,100 [6]	
Selling and Distribution				
Selling expenses		105,165 [2]		
Bad Debt written off	W 13	500 [2]		
Provision for bad debts	W 14	2,800 [2]	108,465	(130,565)
				126,375
Discount net				3,000 [2]
Operating profit				129,375
Less Debenture interest	W 15			(6,750) [4]
Net Profit before taxation				122,625
Less taxation				(8,000) [2]
Profit after Tax				114,625
Less Preference and Ordinary dividends paid				(40,000) [2]
Retained Profit				74,625
Profit and Loss Balance1/1/2008				75,400 [2]
Profit and Loss Balance 31/12/2008				150,025 [3]

Balance Sheet as at 31/12/2008

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		Cost	Acc.Dep	Net	Total
Intangible Fixed Assets		€	€	€	€
Patents	**W 12**				45,000 [3]
Tangible Fixed Assets					
Factory Buildings	**W 4, 17**	600,000	-	600,000 [2]	
Plant and Machinery	**W 7, 8**	271,000 [2]	179,250 [3]	91,750	
		871,000	179,250	691,750	691,750
					736,750
Current Assets					
Stock Raw materials		49,000 [2]			
Work in progress		26,450 [2]			
Finished goods		94,500 [2]	169,950		
Debtors	**W 16**	56,000			
Less provision		(2,800)	53,200 [5]	223,150	
Creditors: Amounts falling due within one year					
Creditors			55,600 [2]		
Bank			10,300 [2]		
VAT			8,400 [2]		
Debenture interest due			6,075 [3]		
Tax due			8,000 [2]	(88,375)	
Net Current Assets					134,775
					871,525
Financed by					
Creditors: amounts falling due after more than one year					
9% Debentures					90,000 [2]
Capital and Reserves			**Authorised**	**Issued**	
Ordinary shares @ €1 each			500,000 [1]	350,000 [2]	
6% Preference shares @ €1 each			300,000 [1]	200,000 [2]	
			800,000	550,000	
Revaluation Reserve	**W 18**			81,500 [4]	
Profit and Loss Balance				150,025 [1]	781,525
Capital Employed					871,525

Question 1 - workings

1.	Sales	1,085,000 – 7,800	1,077,200
2.	Purchases	480,250 – 33,000	447,250
3.	Direct factory wages	252,460 – 17,000	235,460
4.	Dep Factory buildings	45,000 + 11,500	56,500
5.	Dep Plant and Machinery	54,200 + 1,200	55,400
6.	Loss on sale of Machine	9,000 – 6,150 – 800	2,050
7.	Prov for Dep – P & M	130,000 + 55,400 – 6,150	179,250
8.	Plant and machinery	280,000 – 9,000	271,000
9.	Sale of scrap materials	4,500 – 800	3,700
10.	Closing stock -FG	90,000 – 2,000 + 6,500	94,500
11.	Administration expenses	22,400 – 300 [+200 – 500]	22,100
12.	Patents	60,000 ÷ 4	15,000
13.	Bad Debt		500
14.	Provision for bad debts		2,800
15.	Debenture Interest	2700 + 4,050 175 + 500 + 6,075	6,750
16.	Debtors	64,500 – 200 – 500 – 7,800	56,000
17.	Factory Buildings	525,000 + 50,000 + 25,000	600,000
18.	Revaluation Reserve	25,000 +56,500	81,500

Penalty – minus 1mark if no expense heading is shown in profit and loss account.

Question 2

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	1/1/2008	January	February	March	April	July	August	Dec	Dec	Total
Assets	€	€	€	€	€	€		€	€	€
Goodwill	35,000	26,000 [2]								61,000
Land and Buildings	660,000	260,000 [1]			50,000 [2]					970,000
Accumulated Depreciation	(52,800)				52,800 [2]			(12,450) [2]		(12,450)
Delivery Vans	80,000	52,000 [1]	(14,000) [2]			9,000 [2]				127,000
Accumulated Depreciation	(32,000)		5,000 [2]			12,000 [2]		(25,400) [1]		(40,400)
Stock	88,700						(400) [2]			88,300
Debtors	57,100						1,250 [2]			58,350
Insurance A/c (Prepaid)	1,400			9,600 [2]					(9,400) [2]	1,600 [1]
	837,400	**338,000**	**(9,000)**	**9,600**	**102,800**	**21,000**	**850**	**(37,850)**	**(9,400)**	**1,253,400**
Liabilities										
Creditors	79,600	38,000 [1]	(8,800) [2]							108,800
Bank	14,300			1,900 [2]		19,500 [2]	(1,750) [2]			33,950
Wages due	3,500									3,500
Rent Receivable				7,700 [2]					(7,000) [2]	700 [1]
Share Capital	500,000	250,000 [2]								750,000
Share Premium	100,000	50,000 [2]								150,000
Revaluation Reserve					102,800 [2]					102,800
Profit and Loss	140,000		(200) [1]			1,500 [1]	2,600 [2]	(37,850 [2]	(2,400) [2]	103,650 [4]
TOTAL	**837,400**	**338,000**	**(9,000)**	**9,600**	**102,800**	**21,000**	**850**	**(37,850)**	**(9,400)**	**1,253,400**

Question 3

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Land and Buildings Account

01/01/2004	Balance b/d	500,000 [1]			
01/01/2004	Revaluation Res.	100,000 [1]	31/12/2004	Balance c/d	600,000
		600,000			600,000
01/01/2005	Balance b/d	600,000	01/01/2005	Disposal	240,000 [1]
			31/12/2005	Balance c/d	360,000
		600,000			600,000
01/01/2006	Balance b/d	360,000 [1]			
	Bank	400,000 [1]			
	Bank	150,000 [1]			
	Wages	50,000 [1]	31/12/2006	Balance c/d	960,000
		960,000			960,000
01/01/2007	Balance b/d	960,000			
01/01/2007	Revaluation Res	96,000 [2]	3/12/2007	Balance c/d	1,056,000
		1,056,000			1,056,000
01/01/2008	Balance b/d	1,056,000	01/01/2008	Disposal	396,000 [3]
	Revaluation Res.	90,000 [3]	31/12/2008	Balance c/d	750,000
		1,146,000			1,146,000
01/01/2009	Balance b/d	750,000			

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Provision for Depreciation Account

01/01/2004	Revaluation Res.	23,200 [2]	01/01/2004	Balance b/d	23,200 [2]
31/12/2004	Balance c/d	7,200	31/12/2004	Profit & Loss	7,200 [2]
		30,400			30,400
31/12/2005	Balance c/d	14,400	01/01/2005	Balance b/d	7,200
			31/12/2005	Profit & Loss	7,200 [2]
		14,400			14,400
31/12/2006	Balance c/d	33,600	01/01/2006	Balance b/d	14,400
			31/12/2006	Profit & Loss	19,200 [2]
		33,600			33,600
01/01/2007	Revaluation Res.	33,600 [2]	01/01/2007	Balance b/d	33,600
31/12/2007	Balance c/d	21,120	31/12/2007	Profit & Loss	21,120 [2]
		54,720			54,720
01/01/2008	Disposal	7,920 [2]	01/01/2008	Balance b/d	21,120
	Revaluation Res.	13,200 [3]	31/12/2008	Profit & Loss	15,000 [2]
31/12/2008	Balance c/d	15,000			
		36,120			36,120
			01/01/2009	Balance b/d	15,000

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Disposal of Land Account

1/1/2005	Land	240,000 [1]	1/1/2005	Bank	280,000 [1]
31/12/2005	Profit & Loss a/c	40,000 [1]			
		280,000			280,000

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Disposal of Buildings

1/1/2008	Buildings	396,000 [1]	1/1/2008	Bank	420,000 [1]
	Profit & Loss	31,920 [1]		Depreciation	7,920 [1]
		427,920			427,920

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Revaluation Reserve Account

1/01/2005	Revenue Res.	30,000 [1]	1/1/2004	L & B	100,000 [1]
1/01/2008	Revenue Res.	150,800 [1]		Prov for Dep	23,200 [1]
31/12/2008	Balance c/d	175,200 [2]	1/1/2007	L & B	96,000 [1]
				Prov for Dep	33,600 [1]
			1/1/2008	L & B	90,000 [1]
				Prov for Dep	13,200 [1]
		356,000			356,000
			31/12/2008	Balance b/d	175,200

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Revenue Reserve Account

			1/1/2005	Reval Res	30,000 [1]
			1/1/2008	Reval Res.	150,800 [1]
					180,800

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Balance Sheet (extract) as at 31/12/2008

Fixed Assets	€	€	€
Land and Buildings	750,000 [1]	15,000 [1]	735,000 [1]
Capital and Reserves			
Revaluation Reserve			175,200 [1]
Revenue Reserve			180,800 [1]

Question 4

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(a)

Statement of Capital 1/1/2008

		€	€
Assets			
Land & buildings		510,000 [2]	
Machinery		90,000 [2]	
Investments		60,000 [3]	
Milk cheque due		2,600 [1]	
Cattle		80,000 [1]	
Sheep		20,000 [1]	
Fuel		850 [1]	
Bank		33,100 [2]	796,550
Liabilities			
Electricity due		450 [1]	
Bank loan		9,000 [2]	
Loan interest due	**W1**	420 [3]	(9,870)
Capital 1/1/2008			786,680 [1]

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(b)

Enterprise Analysis Account – Cattle and Milk

		€	€
Income			
Sales – Milk	**W2**	28,000 [2]	
- Cattle & Calves	[16,000 + 6,100]	22,100 [1]	
Drawings by family		900 [1]	
Single payment - cattle		3,000 [1]	
Increase in stock	[84,000 – 80,000]	4,000 [1]	58,000
Expenditure			
Purchases – Cattle		15,000 [1]	
Dairy wages		2,000 [1]	
General farm expenses		9,240 [1]	
Fertiliser		2,100 [1]	
Vet fees		525 [1]	28,865
Gross Profit			29,135

Enterprise Analysis Account – Sheep

		€	€
Income			
Sales – Sheep & Lambs	[24,000 + 14,300)]	38,300 [1]	
Drawings by family		500 [1]	
Single payment - sheep		2,500 [1]	
Wool		1,400 [1]	
Increase in stock	[23,000 - 20,000]	3,000 [1]	45,700
Expenditure			
Purchases – sheep		20,000 [1]	
General farm expenses		3,960 [1]	
Fertiliser	**W3**	900 [1]	
Vet fees	**W4**	225 [1]	25,085
Gross profit			20,615

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(c)

General Profit and loss Account for the year ended 31/12/2008

Income		€	€
Gross profit – Cattle and Milk		29,135	
– Sheep		20,615	
Interest	**W5**	1,800 [1]	
Forestry premium		1,900 [1]	53,450
Expenditure			
Light, heat and fuel (80%)	**W6**	2,720 [4]	
Repairs (80%)		5,280 [1]	
Machinery Depreciation (80%)		7,760 [1]	
Buildings Depreciation (80%)		3,360 [1]	
Loan Interest	**W1**	96 [1]	(19,216)
Net Profit			34,234 [2]

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(d) (i) Drawings are debited and sales are credited. Sales are credited instead of purchases because the farm produce are produced rather than purchased. [3]

(ii) **Drawings Account** [5]

	€		€
Milk	900	Capital a/c	7,304
Lamb	500		
Interest	24		
Light and heat	680		
VHI	1,100		
Repairs	1,320		
Depreciation-Machinery	1,940		
Depreciation- Buildings	840		
	7,304		7,304

Workings

1. Interest
   18 months interest = 4% x 1.5 = 6%
   106% = 9,540. Therefore 6% = 540

Interest for year 2008 is	120	
Less Drawings	(24)	96

2. Milk sales	29,000	
Add due 31/12	1,600	
Less due 1/1	(2,600)	28,000
3. Fertiliser	2,500	
Add due 31/12	500	3,000
4. Veterinary fees	1,850	
less VHI	(1,100)	750
5. Investment Interest	900	
Interest due	900	1,800
6. Light Heat and Fuel	3,600	
Add stock 1/1	850	
Less due 1/1	(450)	
Less stock 31/12	(600)	
Less drawings (20% of 3,400)	(680)	2,720
7. Land and Buildings Dep 510,000 – 300,000 = 210,000 x 2% =		4,200

Question 5

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Cash Sales

Debtors x 12 / Credit sales = 2	Credit Sales	=	$\frac{100{,}000 \times 12}{2}$		
Credit sales		=	600,000		
Cash sales		=	980,000 – 600,000	=	€380,000 [10]

Return on Capital Employed

$$\frac{\text{Net profit + Debenture interest}}{\text{Capital employed}} \times 100 = \frac{45{,}000 + 25{,}000}{848{,}000} \times 100 = 8.25\% \text{ [8]}$$

Earnings per share

$$\frac{\text{Net profit after preference dividend}}{\text{Number of ordinary shares}} = \frac{39{,}000}{450{,}000} = 8.66c \text{ [8]}$$

Dividend Yield

$$\frac{\text{Dividend per share x 100}}{\text{Market price}} = \frac{6.89 \times 100}{120} = 5.74\% \text{ [10]}$$

Period to recoup share

$$\frac{\text{Market price}}{\text{Dividend per share}} = \frac{120}{6.89c} = 17.42 \text{ years [9]}$$

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Performance [15]

Profitability. Watson plc is a profitable business as its ROCE in 2008 is 8.25% and 10.6% in 2007. This indicates that the firm is earning nearly 4 times the return from risk free investments of about 2%. However, the profitability has disimproved by 2.35% since 2007 which shows a less efficient use of resources.

Dividend Policy
The Dividend per Share is 2008 is 6.89c and was 12.7c in 2007. This has disimproved by 5.81c since 2007. The company's dividend cover is 1.2 times but was 1.5 times in 2007. Less profits are retained in 2008. The dividend yield is 5.74% in 2008 and was 9.77% in 2007. This has declined by 4.03% since last year. This is a worrying trend and the shareholders would prefer a higher dividend yield. The yield is above the return on a risk free investment of about 2%. The real return to ordinary shareholders would be 6.89% based on available profits as percentage of market value. In 2007 it was 14.65%

State of Affairs **[15]**

Liquidity. Watson plc has a liquidity problem and would have great difficulty paying its debts as they fall due. The company only has 74c available in liquid assets to pay each €1 of short term debts. This has disimproved from 2007 when the company had 98c available to cover each €1 owed. In both years the ratio has been below the ideal of 1:1 and is a cause of worry to shareholders.

Gearing. This is a low geared company. The Gearing of the company is 41.27%. This would please the shareholders as it increases their chances of getting a dividend and there is little risk from outside investors. However the gearing was 34% in 2007. This trend would worry the shareholders.
The interest cover is 2.8 times and shows that the ability of the company to meet their interest charges is satisfactory though not exceptionally good. It has fallen from 4 times in 2008.

Investment Policy. The investments made by the company cost €190,000. These investments now have a market value of €140,000, a drop in value of 26.3%. This shows poor management of resources although one must take into account the economic downturn globally in 2008. This would not please the shareholders.

Prospects **[10]**

Value of shares. The market value is €1.20 in 2008. In 2007, it was €1.30. The price has dropped by 7.7%. This would not please the shareholders as it shows a lack of public confidence in the company by the market.

Sector. Watson plc is a manufacturer in the construction industry. This is not a good sector to be in at the moment as the construction industry has declined significantly in the past year due to the slow down in economic growth. Property developers are finding it hard to sell properties and this in turn has a knock on effect for companies in the building industry as building has almost come to a standstill.

(c) 15

Acid Test Ratio is only 0.74 to 1. Ratio dropped from 0.98 to 1 in 2007. Company has a liquidity problem

Raise cash and improve liquidity by:

1. Paying out lower or no dividends
2. Selling investments rather than issuing debentures.
3. Issuing the remaining 50,000 shares.
4. Improving gross profit percentage of 19.9% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

Question 6

40

Profit and Loss Account of Zodiac PLC for year ended 31/12/2008

	€	
Turnover	2,005,000	[2]
Cost of Sales	(1,346,000)	[5]
Gross Profit	659,000	
Distribution Costs	(260,880)	[4]
	398,120	
Administrative Expenses	(286,720)	[6]
	111,400	
Other Operating Income	76,000	[4]
Operating Profit	187,400	
Investment income	22,400	[3]
Profit on sale of land	72,000	[2]
	281,800	
Interest payable	(18,000)	[3]
Profit on ordinary activities before tax	263,800	[1]
Taxation	(62,000)	[2]
	201,800	
Dividend paid	(72,000)	[2]
	129,800	
Profit brought forward at 1/1/2008	84,000	[2]
Profit carried forward at 31/12/2008	213,800	[4]

Workings

Cost of Sales	81,000 + 1,340,000 + 14,000 – 89,000	=	1,346,000
Distribution Costs	198,000 + 6,880 + 56,000	=	260,880
Administrative Expenses	212,000 + 7,400 + 40,000 + 10,320 + 17,000	=	286,720
Other Operating Income	48,000 + 11,000 + 17,000	=	76,000
Debtors	243,000 – 14,500 +16,800	=	245,300
Other Creditors	7,400 + 40,000 + 3,000	=	50,400
Investment Income	5,600 + 16,800	=	22,400
Revaluation Reserve	90,000 + 52,800 + 17,200	=	160,000
Taxation	62,000 + 66,000	=	128,000

Balance Sheet of Zodiac PLC as at 31/12/2008

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Fixed Assets			€
Intangible Assets			14,000 [2]
Tangible Assets			1,062,000 [2]
Financial Assets			320,000 [1]
			1,396,000
Current Assets			
Stock	89,000 [1]		
Debtors	245,300 [3]		
Bank	62,900 [1]	397,200	
Creditors: amounts falling due within 1 year:	[1]		
Trade Creditors	191,000 [2]		
Taxation	128,000 [2]		
Other Creditors	50,400 [3]		
		(369,400)	
Net Current Assets			27,800
Total assets less Current Liabilities			1,423,800
Creditors: amounts falling due after more than 1 year			
6% Debentures			300,000 [2]
Capital and Reserves			
Issued shares		750,000 [2]	
Revaluation Reserve		160,000 [3]	
Profit carried forward		213,800 [1]	
			1,123,800
			1,423,800

Notes to the Accounts

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1. **Accounting policy notes on Tangible Fixed Assets and Stock** [5]
Buildings were revalued at the end of 2008 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** [5]
Operating profit is arrived at after charging;

Depreciation on Tangible Assets	73,200
Patent amortised	14,000
Directors remuneration	40,000
Auditors fees	7,400

3. Interest payable [2]

Interest payable on debentures (Repayable by **2013/2014**) 18,000

4. Tangible Fixed Assets [7]

	Land &Buildings	**Vehicles Cost**	**Total**
1/1/2008	**920,000**	280,000	1,200,000
Disposal	**(60,000)**		(60,000)
Revaluation surplus 31/12/2008	**90,000**		90,000
Value at 31/12/2008	950,000	280,000	1,230,000
Depreciation 1/1/2008	52,800	112,000	164,800
Depreciation charge for year	**17,200**	**56,000**	73,200
	70,000	168,000	238,000
Transfer on Revaluation	**(70,000)**		(70,000)
Depreciation 31/12/2008	Nil	168,000	168,000
Net Book Value 1/1/2008	867,200	168,000	1,035,200
Net Book Value 31/12/2008	950,000	112,000	**1,062,000**

(b)

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(i) Directors Report [9]

A Directors Report must contain the following:

- 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 the company's compliance with it's safety statement.
- Details of directors' share holdings and dealings during the year.

(ii) Exceptional Item [6]

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.

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

Question 7

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Balance Sheet as at 31/12/2008

			€	€	€	€
Intangible Assets						
Goodwill						6,250 [3]
Tangible Fixed Assets			**Cost**	**Dep**	**Net**	
Premises	(292,000 + 150,000)	**W 1**	442,000 [2]	-	442,000	
Equipment	(20,000 + 15,000)	**W 1**	35,000 [2]	2,750 [1]	32,250	
Delivery Vans			30,000 [2]	1,500 [1]	28,500	
			507,000	4,250	502,750	502,750
Financial Assets						
5% Investments						50,000 [2]
						559,000
Current Assets						
Closing stock		**W 2**		20,200 [2]		
Stock of heating oil				300 [2]		
Debtors			34,000 [2]			
Less Provision for bad debts			(1,020) [1]	32,980		
Rates prepaid		**W 3**		1,750 [3]	55,230	
Less Creditors: amounts falling due within one year.						
Creditors				35,400 [2]		
Bank overdraft				5,400 [2]		
Loan instalments due				12,000 [2]		
Interest due		**W 4**		1,000 [2]		
Electricity due				460 [2]	(54,260)	
						970
						559,970
Financed by						
Creditors: amounts falling due after more than one year						
Loan						108,000 [2]
Capital – Balance 1/1/2008					400,000 [2]	
Capital introduced					36,000 [2]	
Net Profit		**W 8**			35,392 [4]	
					471,392	
Less Drawings		**W 5**			(19,422) [7]	451,970
Capital Employed						559,970

Trading and Profit and Loss Account for the year ending 31/12/2008

40

		€	€	€
Sales	**W 10**			634,500 [2]
Less Cost of Sales				
Opening stock			36,000 [2]	
Purchases		495,960		
Less drawings	**W 12**	(4,160) [1]	491,800 [2]	
			527,800	
Less closing stock	**W 11**		(20,200) [2]	507,600
Gross Profit				126,900
Add Investment interest				2,500 [2]
				129,400
Less Expenses				
Rates	**W 3**		4,560 [6]	
Light and heat	**W 7**		6,128 [6]	
Interest	**W 4**		2,250 [5]	
Wages and general expenses	**W 6**		75,800 [5]	
Bad debts provision			1,020 [2]	
Depreciation Equipment			2,750 [2]	
Depreciation Vans			1,500 [2]	(94,008)
Net Profit	**W 9**			35,392 [1]

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Fuller should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable Fuller to prepare an accurate Trading and Profit and Loss Account and therefore avoid reliance on estimates.

Workings:

1. Depreciation

Equipment: 10% x 20,000 =	2,000	
½ x 10% x 15,000 =	750	2,750
Vans: 1/3 x 15% x 30,000 =		1,500

2. Closing stock

Closing stock	20,500	
Less heating oil	(300)	20,200

3 Rates

Rates	7,000	
Add rates prepaid 1/1/2008	450	
Less rates prepaid 31/12/2008	(1,750)	
Less drawings	**(1,140)**	4,560

4. Interest paid

Interest paid	2,000	
Add interest due	1,000	
Less drawings	**(750)**	2,250

5. Drawings

Purchases	4,160	
Cash	8,840	
Petrol	3,000	
Light and Heat	1,532	
Rates	1,140	
Interest	750	19,422

6 Wages and General expenses

Wages and General expenses	80,000	
Less wages due	(1,200)	
Less drawings of petrol	**(3,000)**	75,800

7 Light and Heat

Light and Heat	7,500	
add electricity due	460	
less stock of oil	(300)	
less drawings	**(1,532)**	6,128

8. Net profit for the year (balancing figure in Balance Sheet)

	€	€
Total Net Assets	559,970	
Less loan	(108,000)	
Less capital after drawings and before profit	(416,578)	35,392

9. Gross Profit

Net Profit + Expenses – Gains (35,392+ 94,008 – 2,500) = 126,900

10. Sales Gross Profit = 20% of sales 126,900 x 5 634,500

11. Cost of sales

Sales less gross profit 634,500 – 126,900 = 507,600

12. Purchases

Cost of sales + closing stock – opening stock

507,600 + 20,200 – 36,000 = 491,800

Question 8

(a) 29

Overhead Analysis

Overhead		Basis	Total	Processing	Assembly	Finishing
Indirect Material		Actual	360,000	170,000 [1]	100,000 [1]	90,000 [1]
Indirect Labour		Actual	500,000	300,000 [1]	120,000 [1]	80,000 [1]
Machine Maintenance	[1]	Machine hours	28,000	14,000 [1]	10,500 [1]	3,500 [1]
Plant Depreciation	[1]	Plant valuation	80,000	48,000 [1]	24,000 [1]	8,000 [1]
Light and Heat	[1]	Volume	70,000	40,000 [1]	20,000 [1]	10,000 [1]
Rent and Rates	[1]	Floor Space	64,000	32,000 [1]	20,000 [1]	12,000 [1]
Factory Canteen	[1]	Employees	50,000	30,000 [1]	15,000 [1]	5,000 [1]
			1,152,000	**634,000** [1]	**309,500** [1]	**208,500** [1]

(b) 18

Overhead recovery (absorption) per	**Machine Hours**	**Direct Labour Hours**	
	Processing (machine hours)	**Assembly** (labour hours)	**Finishing** (labour hours)
Budgeted Overheads	634,000	309,500	208,500
Budgeted hours	40,000	35,000	25,000
Overhead absorption rate per machine hour	€15.85 [6]		
Overhead absorption rate per labour hour		€8.84 [6]	€8.34 [6]

(c) 21

Selling Price of Job No. 510

		€	
Materials	(10,000 + 2,400)	12,400.00	[2]
Labour	(2,000 + 4,600 + 800)	7,400.00	[3]
Overheads:			
Processing	(60 x 15.85)	951.00	[4]
Assembly	(90 x 8.84)	795.60	[4]
Finishing	(12 x 8.34)	100.08	[4]
Production Cost	75%	21,646.68	
Profit	25%	7,215.56	
Selling Price	100%	28,862.24	[4]

(d) 12

Step Fixed Cost [6]

Step fixed costs are costs that are fixed within a certain range of activity but changes outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

Management Accounting/Financial Accounting [6]

Management Accounting	**Financial Accounting**
Is concerned with planning for the future and provides information for planning and budgeting	Is concerned with recording past events. Information is provided in the form of a profit and loss account, balance sheet and cash flow statement
Has an internal focus and furnishes information to aid planning and decision making	Has both internal and external focus and furnishes information to stakeholders such as managers, shareholders and creditors
Is not governed or restricted by legislation or legal requirements	Is governed and regulated by both legislation and accounting standards such as FRS's.
Reports are prepared as often as the managers require them	Reports are prepared usually once a year
Reports are prepared for cost-centres/ departments	Reports are prepared about the whole business

Question 9

11

(a)

Production Budget

	Jan	Feb	Mar	Apr	May
Sales	8,000 [1]	8,500 [1]	10,000 [1]	11,000 [1]	11,500
+ Closing Stock	5,100 [1]	6,000 [1]	6,600 [1]	6,900 [1]	6,300
	13,100	14,500	16,600	17,900	17,800
- Opening Stock	-	(5,100) [1]	(6,000) [1]	(6,600) [1]	(6,900)
Required for production	13,100	9,400	10,600	11,300	10,900

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(b)

Materials Purchases Budget

	Jan	Feb	Mar	April
Units of Production	13,100 [½]	9,400 [½]	10,600 [½]	11,300 [½]
Materials per unit	x 4 [½]	x 4	x 4	x 4
Required for production	52,400 [½]	37,600 [½]	42,400 [½]	45,200 [½]
+ Closing stock	3,760 [½]	4,240 [½]	4,520 [½]	4,360 [1]
	56,160	41,840	46,920	49,560
- Opening stock	-	(3,760) [½]	(4,240) [½]	(4,520) [½]
Required for purchases	56,160[½]	38,080 [½]	42,680 [½]	45,040 [½]
Price per Kg	€1.50 [½]	€1.50	€1.50	€1.50
Cost of raw materials	€84,240 [½]	€57,120 [½]	€64,020 [½]	€67,560 [½]

(c) 37

Cash Budget – January to April

Receipts	**Jan**	**Feb**	**Mar**	**April**
Cash sales received	72,000 [1]	76,500 [1]	90,000 [1]	99,000 [1]
Credit Sales one month		84,000 [1]	89,250 [1]	105,000 [1]
Credit Sales two months			84,000 [1]	89,250 [1]
	72,000	**160,500**	**263,250**	**293,250**
Payments				
Purchases		84,240 [1]	57,120 [1]	64,020 [1]
Wages	20,000 [1]	20,000 [1]	20,000 [1]	20,000 [1]
Variable Overhead	65,500 [1]	47,000 [1]	53,000 [1]	56,500 [1]
Fixed overhead	28,500 [1]	28,500 [1]	28,500 [1]	28,500 [1]
Equipment	30,000 [1]			
Interest	200 [1]	200 [1]	200 [1]	200 [1]
	144,200	**179,940**	**158,820**	**169,220**
Net Monthly Cash Flow	(72,200) [1]	(19,440) [1]	104,430 [1]	124,030 [1]
Bank Loan	24,000 [1]			
Opening Balance		(48,200) [1]	(67,640) [1]	36,790 [1]
Closing Balance	(48,200)	(67,640)	36,790	160,820

(d) 13

Budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2010

		€	€	€
Sales				1,125,000 [1]
Less Cost of Sales				
Opening stock			-	
Purchases			272,940 [1]	
			272,940	
Closing stock – Finished goods	(6,900 x 20)	138,000 [1]		
Raw materials	(4,360 x 1.50)	6,540 [1]	(144,540) [1]	(128,400)
Gross Profit				996,600
Less Expenses				
Wages			80,000 [1]	
Variable overheads			222,000 [1]	
Fixed overhead			114,000 [1]	
Depreciation – Equipment			2,000 [1]	(418,000)
Operating Profit				578,600
Less interest				(800) [1]
Net Profit				577,800 [3]

(e) 6

Last year sales
Market research/Opinion of Sales manager and sales representatives
Trends/State of Economy
Price to be charged
Competition
Luxuries versus necessities