



Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2010

MARKING SCHEME

ACCOUNTING

HIGHER LEVEL



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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 alongside.

[6]

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

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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 (e.g. 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 – Marking Scheme

Question 1

75

(a)

Trading and Profit and Loss Account for the Year ended 31/12/2009 [1]

		€	€	€	€
Sales					659,650 [3]
Less Cost of Sales					
Stock 1/1/2009			63,200 [3]		
Add Purchases	W1		<u>429,900 [6]</u>		
			493,100		
Less Stock 31/12/2009	W2		<u>(70,600) [5]</u>		<u>(422,500)</u>
Gross Profit					237,150
Less Expenses:					
Administration					
Salaries and General expenses	W3	73,900 [7]			
Rent		8,000 [3]			
Patents written off	W4	12,320 [5]			
Depreciation – Buildings		<u>18,600 [3]</u>		112,820	
Selling and Distribution					
Commission		5,550 [3]			
Discount		1,600 [3]			
Advertising	W5	300 [5]			
Loss on sale of van	W6	4,500 [6]			
Depreciation on vans	W7	<u>13,500 [5]</u>		<u>25,450</u>	<u>(138,270)</u>
					98,880
Add Operating Income					
Bad debt recovered					<u>900 [2]</u>
Operating Profit					99,780
Investment Interest	W8				<u>2,400 [4]</u>
					102,180
Less Mortgage Interest	W9				<u>(8,640) [5]</u>
Net Profit for the Year					<u>93,540 [6]</u>

Penalties: Deduction of 2 x 1 mark for the omission of 2 expense headings in the Profit & Loss account

Balance Sheet as at 31/12/2009

		Cost	Accumulated Depreciation	Net	Total
		€	€	€	€
Intangible Fixed Assets					
Patents					49,280 [4]
Tangible fixed Assets					
Buildings		850,000 [1]		850,000	
Delivery Vans	W10 W11	<u>114,000</u> [2]	<u>16,000</u> [3]	<u>98,000</u>	
		<u>964,000</u>	<u>16,000</u>	<u>948,000</u>	948,000
Financial Assets					
4% Investments					<u>120,000</u> [2]
					1,117,280
Current Assets					
Stock			70,600 [2]		
Debtors	W12	50,500			
Less Provision for bad debts		<u>(1,800)</u>	48,700 [3]		
Investment Interest due			1,200 [2]		
Advertising prepaid			<u>2,100</u> [2]	122,600	
Creditors: Amounts falling due within one year:					
Creditors	W13		120,700 [4]		
Mortgage interest due			8,100 [2]		
PAYE & PRSI	W14		4,400 [3]		
VAT			4,600 [2]		
Bank overdraft	W15		<u>12,900</u> [3]	<u>(150,700)</u>	<u>(28,100)</u>
					<u>1,089,180</u>
Financed by					
Creditors: Amounts falling due after more than one year: [1]					
6% Fixed Mortgage					180,000 [2]
Capital and Reserves					
Capital				495,000 [1]	
Add Revaluation Reserve	W16			353,600 [3]	
Add Net Profit				<u>93,540</u>	
				941,940	
Less Drawings	W17			<u>(32,960)</u> [3]	<u>908,980</u>
					<u>1,089,180</u>

Question 1. Workings

1. Purchases	465,200	–	36,000	+	700	=	429,900
2. Closing Stock	75,400	–	4,800			=	70,600
3. Salaries & general expenses	75,000	–	1,000	–	100	=	73,900
4. Patents	60,400	+	1,200	÷	5	=	12,320
5. Advertising	2,400	–	2,100			=	300
6. Loss on sale of van	24,000	–	12,000	–	7,500	=	4,500
7. Depreciation – Delivery Vans	8,250	+	750	+	4,500	=	13,500
	11,250	+	2,250				
	2,812.50	+	10,687.50				
8. Investment Interest	1,200	+	1,200			=	2,400
9. Mortgage Interest	6,000	+	3,600	–	960	=	8,640
10. Delivery Vans	90,000	–	24,000	+	48,000	=	114,000
11. Accumulated Dep. Vans	10,000	+	13,500	–	7,500	=	16,000
12. Debtors	50,000	+	500			=	50,500
13. Creditors	120,000	+	700			=	120,700
14. PAYE & PRSI	5,400	–	1,000			=	4,400
15. Bank overdraft	13,300	–	400			=	12,900
16. Revaluation reserve	230,000	+	123,600			=	353,600
Depreciation buildings	105,000	+	18,600			=	123,600
17. Drawings	32,000	+	960			=	32,960

Question 2

48

(a)

Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating Profit	179,000	[2]
Depreciation charge for the year	65,000	[3]
Loss on sale of machinery	10,000	[5]
Increase in Stock	(18,000)	[2]
Increase in Debtors	(8,000)	[2]
Increase in Creditors	<u>25,000</u>	[2]
Net Cash inflow from operating activities	<u>253,000</u>	[2]

Cash flow Statement of Norris Plc for the year ended 31/12/2009

	€	€
Operating activities		
Net Cash Inflow from operating activities		253,000 [1]
Return on investments and servicing of finance [1]		
Interest paid		(13,000) [3]
Taxation [1]		
Corporation Tax paid		(38,000) [3]
Capital expenditure and financial investment [1]		
Investments	(35,000) [2]	
Payment to acquire tangible fixed assets	(75,000) [2]	
Receipts from sale of fixed assets	<u>30,000</u> [2]	(80,000)
Equity dividends paid [1]		
Dividends paid during the year		<u>(64,000)</u> [2]
Net Cash inflow before Liquid Resources and Financing		58,000
Management of liquid resources [1]		
Purchase of Government Securities		(15,000) [1]
Financing		
Repayment of Debentures	(80,000) [1]	
Receipt from Issue of Shares	20,000 [1]	
Receipt from Share Premium	<u>3,000</u> [1]	<u>(57,000)</u>
Decrease in cash		<u>(14,000)</u> [2]
Reconciliation of net cash flow to movement in net debt		
Decrease in Cash during the period		(14,000) [1]
Cash used to purchase liquid resources		15,000 [1]
Cash used to repurchase of debenture loan		<u>80,000</u>
Change in Net Debt		81,000
Net Debt 1/1/2009		<u>(212,000)</u> [1]
Net Debt 31/12/2009		<u>(131,000)</u> [1]

Question 2 – continued.

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(b) [6]

It shows the cash inflows and outflows during the past year
It shows that profits do not always equal cash
It aids financial planning/ it is used to predict future cash flows
It provides information to assess current liquidity

[6]

Cash expense – reduces both profit and cash e.g. wages

Non-cash expense – reduces profit but not cash e.g. depreciation, provision for bad debts

Workings

Depreciation

Depreciation on Machinery	55,000	
Depreciation on Buildings	<u>10,000</u>	
Depreciation for the year		65,000

Loss on disposal of fixed assets

Cost of machine disposed	70,000	
Depreciation on disposed machine	<u>30,000</u>	
Book value	40,000	
Less depreciation on disposal	<u>30,000</u>	
Loss on disposal		10,000

Taxation

Taxation due 31/12/2008	40,000	
Taxation for year 2009	<u>43,000</u>	
	83,000	
Less taxation due 31/12/2009	<u>(45,000)</u>	38,000

Interest

Interest for year 2009	18,000	
Less interest due 31/12/2009	<u>(5,000)</u>	13,000

Question 3

6

(a)

Vehicles Account

1/1/2008	Balance b/d (W1)	166,000	[1]	01/08/2008	Disposal	56,000	[1]
1/8/2008	Bank & trade-in No 4	66,000	[1]	31/12/2008	Balance c/d	176,000	
		<u>232,000</u>				<u>232,000</u>	
1/1/2009	Balance b/d	176,000		01/05/2009	Disposal	60,000	[1]
1/5/2009	Bank No 5	72,000	[1]	31/12/2009	Balance c/d	188,000	[1]
		<u>248,000</u>				<u>248,000</u>	

(b)

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Provision for Depreciation Account

[1]	01/08/2008	Disposal (W3)	33,047	[2]	01/01/2008	Balance b/d (W2)	76,016	[6]
	31/12/2008	Balance c/d	64,300		31/12/2008	Profit & Loss (W4)	21,331	[8]
			<u>97,347</u>				<u>97,347</u>	
[1]	01/05/2009	Disposal (W5)	31,328	[2]	01/01/2009	Balance b/d	64,300	
	31/12/2009	Balance c/d	60,816	[4]	31/12/2009	Profit & Loss (W6)	27,844	[8]
			<u>92,144</u>				<u>92,144</u>	
					01/01/2010	Balance b/d	60,816	

(c)

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Disposal of Vehicles Account

01/08/2008	Vehicle No 1	56,000	[1]	01/08/2008	Trade In	12,000	[2]
					Provision for Depreciation	33,047	[2]
				31/12/2008	Profit & Loss	10,953	[1]
		<u>56,000</u>				<u>56,000</u>	
01/05/2009	Vehicle No 3	60,000	[1]	01/05/2009	Compensation	20,000	[2]
31/12/2009	Profit & Loss	2,328	[1]		Trade In	11,000	[2]
					Provision for Depreciation	31,328	[2]
		<u>62,328</u>				<u>62,328</u>	

(d)

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- (i) Depreciation is the measure of the wearing away or loss in value of a fixed asset as a result of wear and tear, passage of time, obsolescence or extraction [4]
- (ii) Depreciation is an expense. Failure to include depreciation in the final accounts will [4] result in the profits being overstated and the net assets in the balance sheet will not show a true value.

Number	Cost	Dep to 1/1/2008	B.V. on 1/1/2008	Dep for 2008	BV. on 1/1/2009	Dep for 2009	Total Dep	
1 Unit	40,000 16,000	23,616 6,400	16,384 9,600	1,911 1,120	- -		25,527 7,520	33,047 W 3
2	50,000	24,400	25,600	5,120	20,480	4,096		
3	60,000	21,600	38,400	7,680	30,720	2,048		31,328 W 5
4	66,000	-	-	5,500	60,500	12,100		
5	72,000					9,600		
		76,016 (W2)		21,331 (W4)		27,844 (W6)		

(W1) 1/1/2008 Cost Balance 40,000 + 16,000 + 50,000 + 60,000 = **166,000**

Question 4

24

Adjusted Creditors Control Account

€		€	
Balance b/d	650 [2]	Balance b/d	54,225 [2]
Credit Note (i)	215 [4]	Interest (iii)	55 [5]
Balance c/d	54,253	Discount disallowed (iv)	104 [5]
		Restocking charge (vi)	84 [5]
		Balance c/d	650 [1]
	<u>55,118</u>		<u>55,118</u>
Balance b/d	650	Balance b/d	54,253

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Schedule of Creditors Accounts Balances

		€	€
Balance as per list of Creditors			52,297 [4]
Add	Invoice (ii)	1,350 [3]	
	Interest (iii)	90 [4]	
	Discount disallowed (iv)	104 [4]	
	Cash Purchases (v)	900 [4]	2,444
			54,741
Deduct	Credit Note adjustment (i)	466 [4]	
	Credit Note (vi)	672 [4]	(1,138)
Net Balance as per adjusted Control Account			53,603 [1]

(c)

8

- Errors in either the control account or in the schedule but not in the other [4]
- Failure to complete the double entry/ Errors in the ledgers [4]
- Incorrect totalling of subsidiary books sent to control account

Question 5

45

(a)

(i) **Interest Cover**

$$\frac{\text{Net Profit before interest}}{\text{Interest}} = \frac{65,000 + 30,000}{30,000} = 3.17 \text{ times} \quad [8]$$

(ii) **Cash Purchases**

$$\frac{\text{Creditors}}{\text{Credit Purchases}} \times 12 = 2 \quad \frac{77,000 \times 12}{2} = 462,000$$

(opening stock + purchases – closing stock = cost of sales)
(Purchases = 725,000 – 60,000 + 65,000 = 730,000)

$$\text{Cash Purchases} \quad 730,000 - 462,000 = 268,000 \quad [10]$$

(iii) **Dividend Cover**

$$\frac{\text{Net Profit after Preference Dividend}}{\text{Ordinary Dividend}} = \frac{65,000 - 5,000}{45,000} = 1.33 \text{ times} \quad [8]$$

(iv) **Market Price**

$$\frac{\text{Market Price}}{\text{EPS}} = 10 \quad \frac{\text{Market Price}}{15} = 10 = 150 \text{ cent} \quad [9]$$

(v) **Dividend Yield**

$$\frac{\text{Dividend per share} \times 100}{\text{Market Price}} = \frac{11.25 \times 100}{150} = 7.5\% \quad [10]$$

Question 5 (b)

40

The debenture holders would be **concerned** with the following:

Dividend Policy

[7]

The dividend cover is 1.33 times. Last year's dividend cover was 1.4 times. This is a worsening trend. The DPS last year was 15c while this year it is 11.25c. Based on this year's profit of €65,000, the dividends proposed of €50,000 are excessive. More of the profits should be retained for the repayment of debentures. The % of profits given out is 75%. In 2008, the % given out was 71%.

Security - Real Value of the Assets

[7]

The debentures are secured on the fixed assets. The debenture holders would be interested in the size of the assets to make sure that there is enough security for the loan. There are fixed assets of €820,000 of which, intangible assets are €180,000 leaving net assets excluding intangibles of €640,000. It would be prudent to ascertain the real value of fixed assets as there are no write-offs like depreciation. However, the debenture holders would feel secure because of the excess in value of fixed assets over the loan of €300,000. There are investments of €95,000 but the debenture holders would be disappointed at the fact that the investments have dropped from their value of €120,000.

Profitability

[7]

The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend. If this downward trend continues, there is a risk of having to sell the fixed assets in order to repay debentures. The company is in a profitable position as the return of 11.80% is better than the return from risk free investments of less than 5% and is above the debenture interest rate of 8%. The company is making less efficient use of resources this year.

Liquidity

[7]

The company has a very serious liquidity problem. Last year the quick ratio was 1:1 but this year the quick ratio has fallen to 0.36:1. The company now has only 36c available to pay every €1 owed in the short term. The worsening of the ratio indicates a difficulty in paying debts including future interest. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan.

Gearing

[7]

The company is lowly geared. In 2009, the gearing was at 43.48%. The gearing has worsened from 37% of total capital in 2008. Interest cover was 4.7 times but is now down to 3.2 times. This worsening trend could make interest payments more difficult.

Sector

[5]

The overall worsening state of the economy is having a very negative effect on the dairy industry and there are also risks of over production and low cost competition. The long term prospects are not encouraging in the dairy industry due to outside influences.

Question 5 (c)

15

I would advise my friend **not** to buy shares in Hebe plc for the following reasons: [3]

Share Price [4]

The share value has fallen from €1.80 to €1.50 [30c] since 2009 and is likely to continue in its downward movement based on current year performance. There is a lack of stock market confidence and may discourage investment.

Dividends [4]

Dividend per share is 11.25c. The dividend per share has dropped from 15c
The dividend yield has dropped from 8.3% to 7.5%. Whilst the rate is good the trend is not.

Reserves [2]

The dividend cover is low and dropping. The firm is not retaining enough profits to build up reserves. The company's dividend cover has dropped from 1.4 times to 1.33 times.

Sector [2]

Dairy industry is not performing well and future is unsure.

Liquidity

Company has a serious liquidity problem. The company now has only 36c available to pay every €1 owed in the short term.

Profitability

Profitability is worsening. The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend.

Price Earnings Ratio

Ratio is ten. It would take 10 years to earn back current price at current earnings.

Question 6

18

(a)

Statement of Capital and Reserves on 1/1/2009

	€	€
Assets		
Buildings and grounds (550,000 – 33,000)	517,000 [2]	
Equipment (45,000 – 20,250)	24,750 [2]	
Mini Bus (50,000 – 30,000)	20,000 [2]	
5% Investments	30,000 [1]	
Stock in shop	3,300 [1]	
Stock of oil	1,600 [1]	
Contract cleaning prepaid	200 [1]	
Cash at bank	<u>8,250</u> [1]	605,100
Liabilities		
Creditors for supplies	1,000 [1]	
Clients' fees paid in advance	4,000 [1]	
Loan	40,000 [1]	
Interest on loan (14 months @ 450 per month)	6,300 [2]	
Issued Capital	<u>320,000</u> [1]	(371,300)
Reserves		<u>233,800</u> [1]

(b)

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Shop Profit and Loss Account for the year ended 31/12/2009

Shop receipts		40,000 [1]
Less expenses		
Cost of goods sold (3,300 + 28,000 – 1,500)	29,800 [5]	
Light and heat	250 [1]	
Insurance	800 [1]	
Telephone	350 [1]	
Wages and salaries (40% x 18,000)	<u>7,200</u> [1]	(38,400)
Profit from shop		<u>1,600</u>

(c)

Profit and Loss Account for year ended 31/12/2009

	€	€
Income		
Interest received	1,500 [1]	
Profit from shop	1,600 [1]	
Clients' fees	<u>339,500 [5]</u>	342,600
Less Expenses		
Wages and salaries (85,500 – 7,200)	78,300 [2]	
Insurance (6,400 – 800)	5,600 [2]	
Light and heat	4,470 [5]	
Purchases – supplies	36,700 [3]	
Loan interest	1,800 [1]	
Laundry	2,000 [1]	
Telephone (1,600 – 350)	1,250 [2]	
Bad debt	600 [1]	
Depreciation – Buildings	15,000 [1]	
Equipment	9,000 [1]	
Mini Bus	9,200 [1]	
Loss on sale of Bus	8,000 [1]	
Contract cleaning	<u>3,300 [3]</u>	<u>(175,220)</u>
Net Profit for year		167,380 [4]
Add Reserves 1/1/2009		<u>233,800 [1]</u>
Profit and Loss balance 31/12/2009		<u>401,180</u>

Workings**Clients' fees**

Amount received	340,000	
Fees due 31/12/2009 (500 + 600 – 600)	500	
Advance deposits 1/1/2009	4,000	
Less fees prepaid 31/12/2009	<u>(5,000)</u>	339,500
Light and heat		
Amount paid	3,100	
Stock oil 1/1/2009	1,600	
Electricity due 31/12/2009	320	
Stock oil 31/12/2009	(300)	
Charge to shop	<u>(250)</u>	4,470
Purchases	35,900 + 1,800 – 1,000	36,700
Contract cleaning	3,500 + 200 – 400	3,300

(d)

Balance sheet as at 31/12/2009

	Cost €	Depreciation €	Net €
Fixed Assets			
Buildings and grounds	900,000 [1]	-	900,000
Equipment (45,000 + 15,000)	60,000 [2]	29,250 [2]	30,750
Mini Bus	42,000 [1]	4,200 [2]	37,800
	<u>1,002,000</u>	<u>33,450</u>	968,550
Investments			<u>30,000 [2]</u>
			998,550
Current Assets			
Investment income due	500 [2]		
Closing stock – shop	1,500 [1]		
– oil	300 [1]		
Cleaning prepaid	400 [2]		
Clients' fees due	500 [2]	3,200	
Less Creditors: amounts falling due within 1 year			
Electricity due	320 [2]		
Client's advance deposits	5,000 [2]		
Bank	75,450 [2]		
Creditors for supplies	1,800 [2]	(82,570)	(79,370)
			<u>919,180</u>
Financed by			
Share Capital and Reserves	Authorised	Issued	
Ordinary Shares	450,000 [1]	320,000 [1]	
Revaluation Reserve		198,000 [2]	
Profit and Loss balance		401,180	919,180
			<u>919,180</u>

(e)

A 10% increase in clients' fees would increase income by €33,950.

There is no need to increase fees for viability or profitability purposes.

The company is profitable as its return on capital employed is 18.4% particularly in the current climate.

The company is generating ample cash. It has repaid a loan of €40,000, purchased equipment €15,000, contributed €35,000 towards a new mini bus and has financed about 58% of a €200,000 extension from cash receipts.

In the current climate costs are dropping, there is increased competition and consequently charges should **not** be increasing.

Question 7

50

(a)

		Dr €	Cr €
(i)	Bank	620 [2]	
	Discount	40 [2]	
	Creditor		660 [2]
	Creditors	300 [2]	
	Cash		300 [2]
	Being recording of dishonoured cheque issued by McCarthy and payment on account of €300 in cash [1]		
(ii)	Purchases returns	1,500 [3]	
	Creditors	13,500 [3]	
	Suspense		15,000 [3]
	Being recording of return of motor vehicle and credit note, incorporating a restocking charge. [1]		
(iii)	Suspense	22,500 [3]	
	Bank		22,500 [3]
	Purchases	7,500 [2]	
	Capital		7,500 [2]
	Being Capital introduced in the form of a motor van and the cancellation of an incorrect entry in the bank account [1]		
(iv)	Creditors	450 [2]	
	Motor Vehicles	450 [2]	
	Suspense		900 [2]
	Repairs	450 [2]	
	Bank/cash		450 [2]
	Being cash payments for repairs credited in error to creditors and motor vehicles account. [1]		
(v)	Rent –Profit & Loss	4,200 [2]	
	Rent Account –Balance Sheet	1,050 [2]	
	Capital		5,250 [2]
	Being private funds used to pay twelve months rent for the current year and three months rent prepaid. [1]		

(b)

6

Suspense Account

Bank (iii)	22,500 [2]	Original difference	6,600
		Creditors (ii)	15,000 [2]
		Creditors (iv)	900 [2]
	<u>22,500</u>		<u>22,500</u>

(c)

14

Statement of Corrected Net Profit

		€	€
Original Net Profit as per books			81,200 [2]
Less Discount (i)		40 [2]	
Purchases Returns (ii)		1,500 [2]	
Purchases (iii)		7,500 [2]	
Repairs (iv)		450 [2]	
Rent - P&L (v)		<u>4,200 [2]</u>	(13,690)
Correct Net Profit			<u>67,510 [2]</u>

(d)

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Balance Sheet as at 31/12/2009

	€	€	€
Fixed Assets			
Premises		600,000 [1]	
Motor vehicles (60,000 + 450)		60,450 [2]	
Equipment		<u>30,000 [1]</u>	690,450
Current Assets			
Stock (182,400 + 6,600)	189,000 [2]		
Debtors	38,200 [1]		
Cash (1,000 – 300 – 450)	250 [2]		
Rent	<u>1,050 [1]</u>	228,500	
Less Creditors: amounts falling due within 1 year			
Creditors (56,000 + 360 – 13,500 – 450)	42,410 [3]		
Bank (31,000 – 620 + 22,500)	<u>52,880 [2]</u>	(95,290)	
			<u>133,210</u>
			<u>823,660 [1]</u>
Financed by			
Capital (750,000 + 7,500 + 5,250)		762,750 [2]	
Corrected Net Profit		<u>67,510</u>	
		830,260	
Less Drawings		<u>6,600 [1]</u>	823,660
			<u>823,660 [1]</u>

(e)

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Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account. [4]

Mathematical errors - figures and additions [3]

Posting only one side of the double entry [3]

Question 8

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(a)

Stock Valuation

Purchases in units	Unit cost €	Purchases at cost
3,000	@ €4	12,000
2,200	@ €6	13,200
<u>1,500</u>	@ €7	<u>10,500</u>
6,700		35,700

Credit Sales Units	Credit Sales €	Cash Sales Units	Cash Sales €	Total Sales Units	Total sales €
900 @	€9	8,100		2,100	21,300
1,100 @	€10	11,000		2,400	26,600
1,200 @	€10	12,000		2,400	27,600
3,200	31,100	3,700	44,400	6,900	75,500

Closing Stock in Units Opening Stock 4,000 + Purchases 6,700 – Sales 6,900 = **3,800 units** [6]

Closing Stock in €	1,500 @ €7	=	10,500 [2]
	2,200 @ €6	=	13,200 [2]
	<u>100 @ €4</u>	=	<u>400 [2]</u>
	3,800		24,100 [4]

Trading account for the year ending 31/12/2009

Sales		75,500 [3]
Less cost of Sales		
Opening Stock	16,000 [2]	
Purchases	<u>35,700 [3]</u>	
	51,700	
Closing Stock	<u>(24,100) [2]</u>	<u>(27,600)</u>
Gross Profit		<u>47,900 [4]</u>

(b)

Calculation of Product Cost and Selling Price

	€	€
Direct materials		7,350.00 [2]
Direct wages		
Dept A (95 x 13)	1,235 [3]	
Dept B (185 x 15)	2,775 [3]	
Dept C (60 x 10)	<u>600 [3]</u>	4,610.00
Variable overheads		
Dept A (95 x 15)	1,425 [2]	
Dept B (185 x 17)	3,145 [2]	
Dept C (60 x 22)	<u>1,320 [2]</u>	5,890.00
Fixed overheads		
Dept A (95 x 6)	570 [2]	
Dept B (185 x 5)	925 [2]	
Dept C (60 x 4)	<u>240 [2]</u>	1,735.00
General Administration overhead (340 x 5.50)		<u>1,870.00 [4]</u>
Total Cost (80% of selling price)		21,455.00 [3]
Profit (20% of selling price)		<u>5,363.75</u>
Selling Price 100%		<u>26,818.75 [3]</u>

(c)

Under and over absorption of costs

<u>Dept X</u>	<u>Dept Y</u>	<u>Dept Z</u>
<u>140,000</u>	<u>36,000</u>	<u>40,000</u>
35,000	45,000	20,000
= €4 per M.H [3]	= €0.80 per L.H [3]	= €2 per L.H. [3]

	<u>Dept X</u>	<u>Dept Y</u>	<u>Dept Z</u>	<u>Total</u>
Actual overhead incurred	155,000 [1]	30,000 [1]	45,000 [1]	230,000
Absorbed overhead	<u>160,000 [1]</u>	<u>29,600 [1]</u>	<u>50,000 [1]</u>	<u>239,600</u>
Over/Under absorption	<u>5,000</u>	<u>(400)</u>	<u>5,000</u>	<u>9,600</u>

Dept X	Actual machine hours x M.H. rate = 40,000 x €4	=	160,000
Dept Y	Actual labour hours x L.H. rate = 37,000 x €0.80	=	29,600
Dept Z	Actual labour hours x L.H. rate = 25,000 x €2	=	50,000

Costs incurred were €5,000 less than expected/budgeted and therefore profits are €5,000 greater than expected.
 Costs incurred were €400 more than expected/budgeted and therefore profits are €400 less than expected
 Costs incurred were €5,000 less than expected/budgeted and therefore profits are €5,000 greater than expected
 Overall costs incurred were €9,600 less than expected/budgeted and therefore profits are €9,600 greater than expected. [2]

Question 9

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(a)

Cash Budget July to December

Receipts	Jul	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales Receipts	155,800 [1]	163,400 [1]	212,800 [1]	220,400 [1]	231,800 [1]	239,400 [1]	1,223,600
Cr Sales 1 month		123,000 [1]	129,000 [1]	168,000 [1]	174,000 [1]	183,000 [1]	777,000
Cr sales 2 months			123,000 [1]	129,000 [1]	168,000 [1]	174,000 [1]	594,000
	155,800	286,400	464,800	517,400	573,800	596,400	2,594,600
Payments							
Purchases 1 month		93,100 [1]	102,900 [1]	117,600 [1]	122,500 [1]	161,700 [1]	597,800
Purchases 2 months			95,000 [1]	105,000 [1]	120,000 [1]	125,000 [1]	445,000
Wages	40,000 [3]	40,000	40,000	40,000	40,000	40,000	240,000
Variable overhead	102,500 [1]	107,500 [1]	140,000 [1]	145,000 [1]	152,500 [1]	157,500 [1]	805,000
Fixed overhead	44,200 [3]	44,200 [1]	44,200 [1]	44,200 [1]	44,200 [1]	44,200 [1]	265,200
Equipment	48,000 [1]						48,000
Interest	330 [3]	330 [1]	330 [1]	330 [1]	330 [1]	330 [1]	1,980
	235,030	285,130	422,430	452,130	479,530	528,730	2,402,980
Net Cash	(79,230) [1]	1,270 [1]	42,370 [1]	65,270 [1]	94,270 [1]	67,670 [1]	191,620
Bank Loan	44,000 [1]	44,000					
Opening balance		(35,230) [1]	(33,960)	8,410	73,680	167,950	
Closing balance	(35,230)	(33,960)	8,410	73,680	167,950	235,620 [3]	235,620

(b)

Budgeted Profit and Loss Account

	€	€
Sales (80,500 @ 40)		3,220,000 [2]
Less Cost of Sales		
Purchased - materials	1,570,000 [1]	
Labour (6 x 40,000)	240,000 [1]	
Variable overhead	805,000 [1]	
Fixed overhead (6 x 44,200)	<u>265,200 [1]</u>	<u>(2,880,200)</u>
Gross Profit		339,800
Depreciation – equipment	4,800 [1]	
Discount allowed	<u>64,400 [2]</u>	<u>(69,200)</u>
		270,600
Add Discount received		<u>12,200 [1]</u>
		282,800
Less interest		<u>(1,980) [1]</u>
Net Profit		<u>280,820 [2]</u>

(c)

An adverse variance is when actual costs exceed the budgeted costs. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.

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