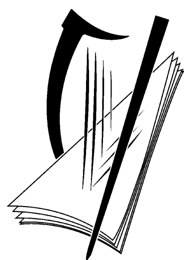


Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2014

Marking Scheme

Accounting

Higher Level

Note to teachers and students on the use of published marking schemes

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work. In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

LEAVING CERTIFICATE ACCOUNTING - 2014

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 **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 (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

Accounting – Higher Level 2014

Question 1

(a)

75

Trading and Profit and Loss Account for the year ending 31/12/2013 [1]

		€		€		€	
Sales						695,000	[2]
Less Cost of Sales							
Stock 1/1/2013				64,200	[2]		
Add Purchases	W1			503,250	[12]		
				567,450			
Less Stock 31/12/2013	W2			(84,000)	[5]	(483,450)	
Gross Profit						211,550	
Less Expenses							
Administration							
Patent written off	W3	8,230	[5]				
Salaries and General expenses	W4	87,400	[9]				
Rent		10,000	[2]				
Insurance		5,750	[2]				
Depreciation – Buildings	W5	12,800	[3]	124,180			
Selling and Distribution							
Advertising		2,500	[2]				
Loss on sale of van	W6	14,000	[6]				
Depreciation –Delivery van	W7	9,450	[5]				
Discount		1,800	[2]	27,750		(151,930)	
						59,620	
Add Operating Income							
Bad debt recovered						800	[2]
						60,420	
Add Investment Income						2,250	[4]
						62,670	
Less Mortgage Interest	W8					(8,325)	[5]
Net Profit						54,345	[6]

(b)

45

Balance Sheet as at 31/12/2013

		Cost		Acc. Dep.		Net		Total	
Intangible Fixed Assets		€		€		€		€	
Patents								32,920	[4]
Tangible Fixed Assets									
Buildings	**W9**	720,000	[1]			720,000			
Delivery Vans	**W10 & 11**	96,000	[2]	11,450	[3]	84,550			
		816,000		11,450		804,550		804,550	
Financial Assets									
8% Investments								100,000	[2]
								937,470	
Current Assets									
Stock				84,000	[2]				
Debtors	**W12**			48,600	[2]				
Investment income due	**W13**			1,500	[3]	134,100			
Creditors: amounts falling due within one year									
Creditors	**W14**			115,250	[6]				
Bank	**W15**			15,600	[3]				
VAT				4,200	[2]				
PRSI/USC	**W16**			1,800	[2]				
Mortgage interest due				9,000	[2]	(145,850)		(11,750)	
								925,720	
Financed by									
Creditors: amounts falling due after more than one year					[1]				
Mortgage								200,000	[2]
Capital and Reserves									
Capital						530,000	[1]		
Revaluation Reserve	**W18**					187,800	[3]		
Net Profit						54,345			
						772,145			
Drawings	**W17**					(46,425)	[4]	725,720	
Capital Employed								925,720	

Question 1 - workings

1.	Purchases	530,400 + 4,000 – 30,000 +1,250 – 2,400	503,250
2.	Closing stock	80,000 + 4,000	84,000
3.	Patent (Profit + Loss a/c)	(40,400 + 750) * 5	8,230
	Patents (Balance Sheet)	(40,400 + 750) – 8,230	32,920
4.	Salaries and general expenses	90,000 – [2,000 + 600]	87,400
5.	Depreciation on Buildings	2% x €640,000	12,800
6.	Loss on sale of van	40,000 – 16,000 – 10,000	14,000
7.	Depreciation Delivery vans 9,000 + 450 2,250 + 7,200 5,000 + 1,000 + 3,450	5,000 + 1,000 + 3,450	9,450
8.	Mortgage Interest 1,500 + 600 + 9,000 – 2,775	8,400 + 2,700 – 2,775 8,325	
9.	Buildings	640,000 + 80,000	720,000
10.	Delivery vans at cost	90,000 + 46,000 – 40,000	96,000
11.	Provision for Dep. – vans	12,000 + 9,450 – 10,000	11,450
12.	Debtors	50,000 - 1,400	48,600
13.	Investment Income due	2,250 – 750	1,500
14.	Creditors	110,000 + 4,000 + 1,250	115,250
15.	Bank	16,400 – 800	15,600
16.	PAYE/PRSI	3,800 – 2,000	1,800
17.	Drawings	41,250 + 2,775 + 2,400	46,425
18.	Revaluation Reserve	80,000 + 95,000 + 12,800	187,800

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

Question 2

(a) **51**

Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating Profit	185,000	[2]
Depreciation charge for the year	60,000	[3]
Loss on sale of machinery	25,000	[5]
Increase in stock	(23,000)	[2]
Increase in debtors	(8,000)	[2]
Increase in creditors	5,000	[2]
Net cash inflow from operating activities	244,000	[2]

CASH FLOW STATEMENT of Doyle plc for the year ended 31/12/2013

		€		€	
Operating activities					
Net cash inflow from operating activities				244,000	
Returns on investments and servicing of finance	[1]				
Interest on debentures paid				(13,000)	[3]
Taxation					
Corporation tax paid				(40,000)	[3]
Capital expenditure and financial investment	[1]				
Investments		(20,000)	[2]		
Payment to acquire tangible fixed assets		(75,000)	[2]		
Receipts from sale of fixed assets		30,000	[2]	(65,000)	
Equity dividends paid	[1]				
Dividends paid during the year				(60,000)	[1]
Net cash **inflow** before liquid resources and financing				66,000	[2]
Management of liquid resources	[1]				
Purchase of Government Securities				(20,000)	[1]
Financing	[1]				
Repayment of debentures		(80,000)	[1]		
Receipt from issue of shares		20,000	[1]		
Receipt from share premium		4,000	[1]	(56,000)	
Decrease in cash				**(10,000)**	[4]

Reconciliation of net cash flow to movement in net debt

Decrease in cash during the period	(10,000)	[1]
Cash used to purchase Government Securities	20,000	[1]
Cash used to purchase debentures	80,000	[1]
Change in net debt	90,000	
Net debt 1/1/2013	(232,000)	[1]
Net debt 31/12/2013	(142,000)	[1]

(b)

9

(i) **[6]**

Doyle plc has generated €59,000 [€244,000 - €185,000] more cash inflow during the year because:
Depreciation €60,000 and loss on sale of machinery €25,000 reduce profit but had no affect on cash inflow.
An increase in creditors during the year increases cash inflow by €5,000 but has nil affect on profit.
The increase in debtors and stock during the year of €8,000 and €23,000 respectively also contributed to a reduction in net cash inflow but have no effect on profits.

(ii) **[3]**

Accounting Obligations of a large public company
Provide a full set of accounts, balance sheet and a cash flow statement to shareholders at AGM
File/register a full set of accounts and balance sheet with the registrar of companies
Provide explanatory notes to these accounts
Must have its accounts audited
They must also present an annual report to the company shareholders at its AGM. This report should include a director's report, an auditor's report as well as the published accounts.

Question 2 – workings

Depreciation

Depreciation provision on machinery 1/1/2013	250,000
Add Depreciation charge for the year on machinery	40,000
	290,000
Less Depreciation provision on machinery 31/12/2013	270,000
Depreciation on disposed machine	**20,000**

Loss on disposal of fixed assets

Cost of machine disposed - [495,000 – 420,000]	75,000
Depreciation on disposed machine	20,000
Book value	55,000
Less receipts from sale	30,000
Loss on disposal	**(25,000)**

Taxation

Taxation due 31/12/2012	75,000
Taxation for year 2013	45,000
	120,000
Less taxation due 31/12/2013	(80,000)
Tax paid	**40,000**

Interest

Interest due 31/12/2012	--
Interest for year 2013	16,000
	16,000
Less interest due 31/12/2013	(3,000)
Interest paid	**13,000**

Question 3

(a)

Profit and Loss Account of Danner plc for the year ended 31/12/2013

	€	
Turnover	1,770,000	[2]
Cost of sales	1,004,500	[4]
Gross profit	765,500	
Distribution costs	(311,750)	[4]
Administrative expenses	(309,250)	[6]
	144,500	
Other Operating income	44,000	[3]
Operating profit	188,500	
Investment income	3,500	[2]
Profit on sale of land	20,000	[2]
	212,000	
Interest payable	(17,500)	[2]
Profit on ordinary activities before taxation [1]	194,500	
Taxation	(90,000)	[1]
	104,500	
Dividends paid	(22,000)	[1]
	82,500	
Profit brought forward at 1/1/2013	41,000	[2]
Profit carried forward at 31/12/2013	123,500	[6]

Workings

1.	Cost of Sales (82,000+1,000,500 – 90,000 +12,000)		1,004,500
2.	Distribution costs 260,000 + 3,750 + 48,000	=	311,750
3.	Administrative expenses 230,000 + 50,000 +15,000 + 3,000 + 11,250	=	309,250
4.	Other Operating income 30,000 + 3,000 + 11,000		44,000
5.	Investment income 2,000 + 1,500	=	3,500
6.	Dep. Buildings 2% x 750,000 = 15,000. 25% = 3,750. 75% = 11,250		
7.	Dep. Vehicles 20% x 240,000	=	48,000

9

(b)

(i) [3]

A Director's Report must include 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 company's compliance with its safety statement.
- Details of directors' share holdings and dealings during the year.

(ii) [6]

Exceptional Item: 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 fixed asset or large bad debt.

Notes to the Accounts

15

1. **Accounting policy notes**. **[4]**

Tangible Fixed Assets

Buildings were re-valued at the end of 2013 and have been included in the accounts at their re-valued amount.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings	2% per annum straight line
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** **[2]**

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	63,000
Patent amortised	12,000
Directors remuneration	50,000
Auditors fees	15,000

3 **Financial Fixed Assets** **[2]**

	1/1/2013	**31/12/2013**
Quoted investments	250,000	250,000
Unquoted Investments	70,000	70,000
	280,000	280,000

The market value of the quoted investments on 31/12/2013 was €110,000.

The director's valuation of the unquoted investments on 31/12/2013 was €60,000.

4 **Tangible Fixed Assets** **[7]**

	Land & Buildings	**Vehicles cost**	**Total**
Assets			
Value 1/1/2013	860,000	240,000	1,100,000
Disposal	(110,000)	----	(110,000)
Revaluation surplus	150,000	----	150,000
Value at 31/12/2013	900,000	240,000	1,140,000
Depreciation			
Balance 1/1/2013	81,000	25,000	106,000
Depreciation charge for the year	15,000	48,000	63,000
	96,000	73,000	169,000
Transfer on revaluation	(96,000)	----	(96,000)
Depreciation	----	73,000	73,000
Net book value 1/1/2013	779,000	215,000	994,000
Net book value 31/12/2013	900,000	167,000	1,067,000

Question 4

(a)

24

Adjusted Creditors Control Account

	€			€	
Balance b/d	490	[2]	Balance b/d	63,552	[1]
Credit Note (vi)	313	[4]	Discount disallowed (ii)	330	[4]
Balance c/d	63,819		Interest (iii)	50	[4]
			Purchases (iv)	180	[4]
			Restocking charge (v)	20	[4]
			Balance c/d	490	[1]
	64,622			64,622	
Balance b/d	490		Balance b/d	63,819	

(b)

28

Schedule of Creditors Accounts Balances

			€		€	
Balance as per list of Creditors					61,892	[4]
Add	Cash Purchases	(i)	890	[3]		
	Discount disallowed	(ii)	330	[4]		
	Interest	(iii)	61	[4]		
	Invoice	(iv)	860	[4]	2,141	
					64,033	
Deduct	Credit Note adjustment	(v)	360	[4]		
	Credit Note	(vi)	344	[4]	(704)	
Net Balance as per adjusted Control Account					63,329	[1]

(c)

8

(i) Contra Item [4]

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

(ii) Opening Balance €490 could arise as a result of: [4]

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

Question 5

(a)

50

(i) Cash Sales

$$\frac{\text{Debtors} \times 12}{\text{Credit sales}} = 2 \qquad \text{Credit sales} = \frac{43{,}000 \times 12}{2}$$

Credit Sales = €258,000

Cash sales = €950,000 – €258,000 = **€692,000** **[12]**

(ii) Return on Capital Employed

$$\frac{\text{Profit before interest} \times 100}{\text{Capital employed}} = \frac{€65{,}000 \times 100}{€792{,}000} =$$ **8.21%** **[8]**

(iii) Earnings per share

$$\frac{\text{Net profit after pref. dividend}}{\text{Number of ordinary shares}} = \frac{€47{,}000 - €5{,}000}{€350{,}000} =$$ **12 cent** **[10]**

(iv) Dividend Yield

$$\frac{\text{Dividend per share} \times 100}{\text{Market Price}} = \frac{10c \times 100}{130c} =$$ **7.69%** **[12]**

(v) Period to recoup price

$$\frac{\text{Market price}}{\text{Dividend per share}} = \frac{130}{10c} =$$ **13 years** **[8]**

(b)

40

Bank Loan Application

Profitability [6]
The company is profitable but less profitable in 2013 than in 2012. The ROCE has disimproved from 10.1% to 8.21%. This is less than the interest of 9% to be charged on the loan. The manager would have to question why the company would borrow at 9% if the ROCE in the company was only 8.21%.

Liquidity [6]
The acid test of 0.45:1 is very poor. It has worsened from 0.90:1 in 2012. Shannon plc has a serious liquidity problem. It has only 45c of liquid assets available for each €1 owed in the short term. The liquidity problem will worsen if the loan is granted. The company will have difficulty in making interest repayments if the current trend continues. Annual interest on loan would be €31,500

Gearing [6]
The company is just above the neutral gearing point at 50.5% [1.02 to 1] and now can be termed highly geared. This gearing has become less favourable after rising from 48% to 50.5%. The gearing will get worse if a loan of €350,000 is given. The gearing with the loan would rise to 65.67% [1.91 to 1].
The interest cover has disimproved from 4 times to 3.61 times. This cover will get much worse if a loan of €350,000 is given.

Security [6]
The fixed assets are valued at cost €790,000 but one should question the depreciation policy to ascertain the real value of the tangible assets. One should also question the value of the intangible assets. The investments have a market value of €200,000 but cost €210,000. Already, €300,000 is committed to securing the debentures. The balance sheet value of tangible fixed assets is €480,000 leaving €180,000 after security committed to debentures. The security is not adequate.

Dividend Cover/Policy [5]
The dividend cover is 1.2 times. This has worsened from 1.25 times in 2012. The dividend cover is low and will get worse. Not enough of the company's earnings are being retained. This would jeopardise repayment of the loan.

Sector [5]
Shannon plc is in the Construction Industry. There is grave concern about the industry in the current economic climate and prospects are not encouraging in the medium term. Property developers are finding it hard to sell properties and this has a knock on effect on the building industry and building has almost come to a standstill. In the short term prospects are not good due to lack of finance
Long term prospects are better as demand is/will be greater than supply.

Purpose of Loan [4]
The loan is required for future expansion. This expansion should be more specific. It is questionable whether Shannon plc could generate extra income to service the loan.

Conclusion [2]
The bank manager **should not grant** the loan based on the above figures. The company has a falling profit and a serious liquidity problem. The company is highly geared making it vulnerable to outside investors. It has a very generous dividend policy and not enough profits are being retained in the business.

(c) Liquidity and Solvency

10

Liquidity measures the ability of the company to pay its short term debts as they fall due. The acid test ratio is a good indicator of liquidity as it includes only liquid assets i.e. cash and debtors. [5]

Solvency is the ability of a company to pay all of its debts as they fall due for payment (long term). Solvency is the most important indicator of a business's ability to survive in the long term. A business is solvent if its total assets exceed its outside liabilities. Debt to equity or total debt to total assets are good guides. [5]

Question 6

(a) **18**

Statement of Capital and Reserves on 1/1/2013

		€		€	
Assets					
Buildings and grounds	(620,000 – 37,200)	582,800	[2]		
Equipment	(70,000 – 21,000)	49,000	[2]		
Vehicles	(90,000 – 54,000)	36,000	[2]		
5% Investments		40,000	[1]		
Stock in shop		3,400	[1]		
Stock of oil		1,900	[1]		
Contract cleaning prepaid		400	[1]		
Cash at bank		6,000	[1]	719,500	
Liabilities					
Creditors for supplies		1,600	[1]		
Clients' fees paid in advance		6,000	[1]		
Loan		50,000	[1]		
Interest on loan (12 months @ 400 per month)		4,800	[2]		
Issued Capital		450,000	[1]	(512,400)	
Reserves 1/1/2013				**207,100**	[1]

(b) **10**

Shop Profit and Loss Account for the year ended 31/12/2013

Shop receipts				45,000	[1]
Less Cost of goods sold (3,400 + 28,000 – 1,400)				(30,000)	[5]
				15,000	
Less expenses					
Light and heat		400	[1]		
Insurance		800	[1]		
Telephone		500	[1]		
Wages and salaries	(40% x 22,000)	8,800	[1]	(10,500)	
Profit from shop				**4,500**	

(c) **36**

Profit and Loss Account for year ended 31/12/2013

		€		€	
Income					
Profit from shop		4,500			
Investment income received		2,000	[1]		
Clients' fees		330,800	[5]	337,300	
Less Expenses					
Wages and salaries	(85,400 – 8,800)	76,600	[1]		
Insurance	(6,800 – 800)	6,000	[1]		
Light and heat		4,660	[5]		
Purchases – supplies		36,300	[3]		
Loan interest		1,200	[1]		
Laundry		2,500	[1]		
Telephone (1,600 – 500)		1,100	[1]		
Depreciation –	Buildings	17,000	[1]		
	Equipment	8,500	[1]		
	Vehicles	19,900	[3]		
Loss on sale of vehicle		3,000	[2]		
Contract cleaning		3,500	[3]	(180,260)	
Net Profit for year				157,040	[6]
Add Reserves 1/1/2013				207,100	[1]
Profit and Loss balance 31/12/2013				364,140	

(d) **30**

Balance sheet as at 31/12/2013

	Cost		Depreciation		Net	
Fixed Assets	€		€		€	
Buildings and grounds	900,000		-		900,000	[1]
Equipment (70,000 + 15,000)	85,000	[2]	29,500	[2]	55,500	
Vehicles	109,000	[1]	45,900	[3]	63,100	
	1,094,000		75,400		1,018,600	
Investments					40,000	[2]
					1,058,600	
Current Assets						
Investment income due	800	[2]				
Closing stock – shop	1,400	[1]				
oil	600	[1]				
Contract cleaning prepaid	500	[1]				
Clients' fees due	800	[1]	4,100			
Less Creditors: amounts falling due within 1 year						
Electricity due	360	[1]				
Clients' advance deposits	6,500	[1]				
Bank	135,000	[1]				
Creditors for supplies	2,500	[1]	(144,360)		(140,260)	
					918,340	
Financed by						
Share Capital and Reserves	**Authorised**		**Issued**			
Ordinary Shares	600,000	[1]	450,000	[1]		[2]
Revaluation Reserve [54,200 + 50,000]			104,200	[3]		
Profit and Loss balance			364,140	[2]	918,340	
					918,340	

(e) **6**

The Centre is profitable and is generating enough cash to clear the overdraft without taking any remedial action that could have negative effects on profitability.
The proposed increase of 15% in clients' fees would raise only €49,620 based on this year's figures. This is only one third of the overdraft of €135,000 and so would not be adequate. This increase in fees could however cause a drop in membership with loss of income.
Based on this year's figures the overdraft will have been cleared by the end of next year without taking any remedial action now. The Centre this year has repaid a loan of €50,000 plus interest €6,000 and had capital expenditure of €295,000 (Equipment €15,000, Extension €230,000, Vehicles €50,000). This is all non-recurring expenditure.

The Centre had a surplus of €157,040 this year and is clearly being run profitably and will continue to be profitable. Its return on capital employed is 17.1%.

Workings

Clients' fees	Amount received	330,500	
	Advance deposits	6,000	
	Fees due	800	
	Less fees prepaid	(6,500)	330,800
Light and heat	Amount paid	3,400	
	Stock oil 1/1/2013	1,900	
	Electricity due	360	
	Stock oil 31/12/2013	(600)	
	Charge to shop	(400)	4,660
Purchases	35,400 + 2,500 – 1,600		36,300
Contract cleaning	3,600 + 400 – 500		3,500

Question 7

(a) 54

		Dr. €	Cr. €
(i)	Debtors a/c	830 [2]	
	Bank a/c		780 [2]
	Discount allowed a/c - disallowed		50 [2]
	Bank a/c	83 [2]	
	Bad debts a/c	747 [2]	
	Debtors a/c		830 [2]
	Being recording of dishonoured cheque received by Cagney and the payment 10 cent in the €1 as a first and final payment of debt [1]		
(ii)	Purchases returns a/c	3,500 [2]	
	Creditors a/c	11,500 [2]	
	Suspense a/c		15,000 [3]
	Being recording of return of goods and credit note incorporating a restocking charge. [1]		
(iii)	Rent a/c - (P&L)	3,408 [2]	
	Debtors for Rent a/c (Balance Sheet)	852 [2]	
	Capital a/c		4,260 [2]
	Being recording of private funds used to pay twelve months rent for the current year and three months rent prepaid. [1]		
(iv)	Sales commission a/c	3,000 [2]	
	Creditors (advertising) a/c	3,250 [2]	
	Capital a/c		6,000 [2]
	Discount received a/c		250 [2]
	Being recording of capital introduced used for the purpose of clearing a debt and payment of commission [1]		
(v)	Vehicles a/c	8,800 [2]	
	Capital a/c		8,800 [2]
	Drawings a/c	800 [3]	
	Loss on transaction(disposal) – P & L a/c	500 [3]	
	Suspense a/c	800 [3]	
	Equipment a/c		2,100 [3]
	Being recording of a private motor car given to the business by Cagney and freezer taken as part payment [1]		

(b) 6

Suspense Account

Original difference	14,200 [2]	Creditors/ purchases returns(ii)	15,000 [2]
Equipment (v)	800 [2]		
	15,000		15,000

(c) **14**

Statement of Corrected Net Profit

		€		€
Original Net Profit as per books				87,200
Add	Discount disallowed (i)	50	[1]	
	Discount received (iv)	250	[1]	300
				87,500
Less	Bad debts (i)	747	[2]	
	Purchases Returns (ii)	3,500	[1]	
	Loss on Freezer transaction (v)	500	[2]	
	Rent a/c (iii)	3,408	[1]	
	Sales commission (iv)	3,000	[1]	(11,155)
Correct Net Profit				**76,345** [5]

(d) **20**

Balance Sheet as at 31/12/2013

		€	€	€
Fixed Assets				
Premises			650,000 [1]	
Motor vehicles	(72,000 + 8,800)		80,800 [2]	
Equipment	(35,000 – 2,100)		32,900 [2]	763,700
Current Assets				
Stock	(185,400 – 14,200)	171,200 [1]		
Debtors	(36,300 + 830 – 830)	36,300 [1]		
Cash		1,500 [1]		
Rent prepaid		852 [1]	209,852	
Less Creditors: amounts falling due within 1 year				
Creditors	(58,500 – 11,500 – 3,250)	43,750 [2]		
Bank	(32,000 + 780 – 83)	32,697 [2]	(76,447)	133,405
				897,105
Financed by				
Capital	(810,000 + 4,260 + 8,800 + 6,000)		829,060 [3]	
Corrected Net Profit			76,345 [1]	[2]
			905,405	
Less Drawings	(7,500 + 800)		(8,300) [1]	897,105
				897,105

(e) **6**

Errors in figures and addition

Posting only one side of the double entry

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

Question 8

(a)

58

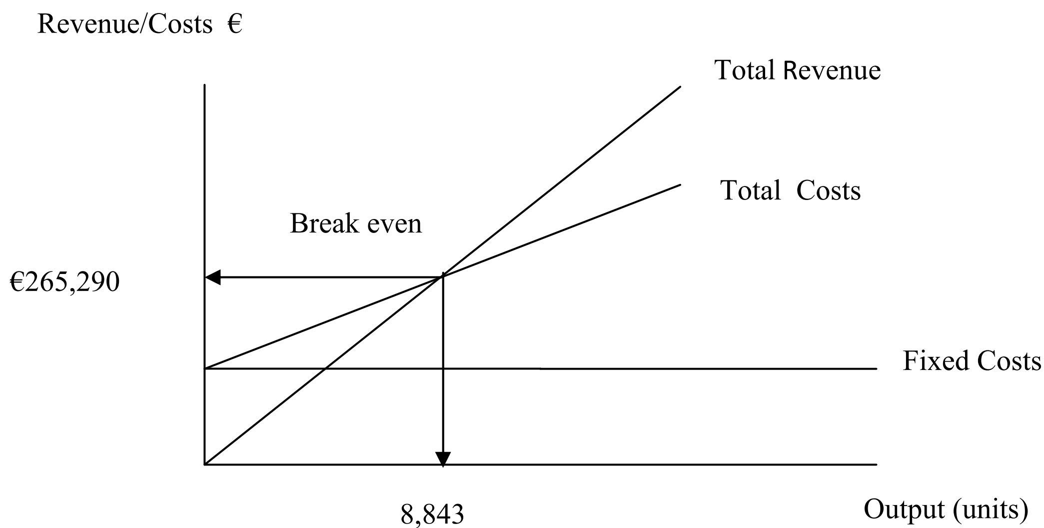
	€	€	€ per unit
Sales (16,000 units)		480,000	30.00
Less Variable Costs			
Direct materials	120,000		
Direct wages	110,000		
Factory overhead	20,000		
Administration overhead	40,000	(290,000)	(18.125)
Contribution		190,000	11.875
Less Fixed Costs			
Factory overhead	40,000		
Administration overhead	65,000	(105,000)	
Net Profit		85,000	

(i)

Break even point Fixed Costs / CPU = 105,000 [3] / 11.875 [4] = [3] **8,843 units**

Margin of safety Sales – Break even point
[2] 16,000 – 8,843 [2] = [2] **7,157 units**

(ii) Break even chart [8]



(iii) Profit from reduced selling price

		€	
Sales	(19,000 x 28.50)	541,500	[3]
Less Variable costs	(19,000 x 18.125)	(344,375)	[3]
Contribution		197,125	
Less Fixed costs	(105,000 + 5,000)	(110,000)	[3]
Profit		87,125	[1]

(iv) **Fixed Costs / Contribution – 20% of S.P.** [2] 105,000 / [4] 7.875 – 5.2 [4] = [2] **39,253 units**

(v) The profit they would make from Selling Price of €34

Sales	(17,000 x 34)	578,000	[2]
Less Variable costs	(17,000 x 18.125 + 1.70 +1)	(354,025)	[6]
Contribution		223,975	
Less Fixed Costs		(105,000)	[2]
Profit		118,975	[2]

22

(b)

(i)

Absorption Costing

Sales	(9,000 x 4)			36,000	[1]
Less production Cost (10,000 units)					
Direct Materials	(10,000 x €0.60)	6,000	[1]		
Direct Labour	(10,000 x €0.50)	5,000	[1]		
Variable Overhead	(10,000 x €0.40)	4,000	[1]		
Fixed Overhead		4,000	[1]		
		19,000			
Less Closing Stock (1/10 x 19,000)		(1,900)	[1]	(17,100)	
Profit				**18,900**	

Marginal Costing

Sales	(9,000 x 4)			36,000	[1]
Less Production Cost (10,000 units)					
Direct Materials	(10,000 x 0.60)	6,000	[1]		
Direct Labour	(10,000 x 0.50)	5,000	[1]		
Variable Overhead	(10,000 x 0.40)	4,000	[1]		
		15,000			
Less Closing Stock (1/10 x 15,000)		(1,500)	[1]	(13,500)	
Contribution	[1]			22,500	
Less Fixed overheads				(4,000)	[1]
Profit				**18,500**	

(ii)

[6]

There is a difference in the profit figures because closing stock is valued differently.
Closing stock under marginal costing is valued lower than under absorption costing.
When costing a product, marginal costing does not include fixed costs whereas in absorption costing the fixed costs are included. Therefore a share of fixed costs is included in the value of stock under absorption costing and not included under marginal costing.
Under absorption costing, closing stock is valued at a 1/10 of the production cost of €19,000
Under marginal costing, closing stock is valued at a 1/10 of the variable cost of €15,000

Closing Stock – Absorption Costing	1,900	
Closing Stock – Marginal Costing	(1,500)	
Difference		400

The profit difference is 18,900 – 18,500 = **400**

[3]

Absorption costing should be used as it agrees with standard accounting practice and concepts and also matches costs with revenues.

Question 9

80

(a)

Sales Budget	**Micro**	**Excel**	
Expected sales in units	11,000	6,500	
Expected selling price per unit	€240	€300	
Budgeted sales revenue	€2,640,000	€1,950,000	€4,590,000

Production budget		**Micro Units**	**Excel Units**
Required by sales	[6]	11,000	6,500
Add Closing stock (80% of opening stock)	[6]	640	440
		11,640	6,940
Less Opening stock	[4]	(800)	(550)
Budgeted production in units		**10,840**	**6,390**

(b) Raw Materials Purchases Budget

		Material X Kgs		**Material Y Kgs**			
Required by production –							
Micro	(10,840 x 6)	65,040	[2]	54,200	[2]	(10,840 x 5)	
Excel	(6,390 x 4)	25,560	[2]	44,730	[2]	(6,390 x 7)	
		90,600		98,930			
Add Closing stock (80% of opening stock)		5,600	[2]	4,000	[2]		
		96,200		102,930			
Less Opening stock		(7,000)	[2]	(5,000)	[2]		
Required purchases of raw materials in Kg's		89,200		97,930			
Purchase Price		€2	[2]	€4	[2]		
Purchase cost		**€178,400**		**€391,720**			**€570,120**

(c) Production Cost/Manufacturing Budget

Cost of raw materials consumed:		**€**	**€**	
Opening stock of raw materials				
X	(7,000 x 1.80)	12,600		
Y	(5,000 x 3.60)	18,000	30,600	[4]
Purchases	(178,400 + 391,720)		570,120	[2]
			600,720	
Less Closing stock of raw materials				
X	(5,600 x 2)	11,200		
Y	(4,000 x 4)	16,000	(27,200)	[4]
			573,520	
Cost of Labour	(10,840 x 7 x 12)	910,560		
	(6,390 x 8 x 12)	613,440	1,524,000	[4]
Variable overheads	(10,840 x 7 x5)	379,400		
	(6,390 x 8 x 5)	255,600	635,000	[4]
Fixed overheads			180,400	[2]
Cost of manufacture			**2,912,920**	[3]

(d) Budgeted Trading Account

			€	€	
Sales of finished goods	(2,640,000 + 1,950,000)			4,590,000	[2]
Opening stock of finished goods					
Micro	(800 x 130)	104,000			
Excel	(550 x 150)	82,500	186,500 [2]		
Cost of Manufacture			2,912,920 [2]		
			3,099,420		
Less Closing stock of finished goods					
Micro	(640 x 160)	102,400			
Excel	(440 x 184)	80,960	(183,360) [4]	(2,916,060)	
Gross Profit				1,673,940	[3]

(e)

[6]

Cash Budget

A Cash Budget is a plan or forecast that summarises the expected inflows and outflows of cash during a period. This budget is prepared by the management accountant or the financial accountant.

A cash budget will anticipate periods when the organization will have cash surpluses and will enable it to arrange short term investments.

A cash budget will anticipate periods when the organization will have cash deficits and will enable it to make arrangements for a loan or overdraft.

A cash budget will help in making sure that there is always enough funds available to meet the day to day needs of the business.

[2]

Principal Budget Factor: Apart from sales demand the principal budget factor could also be:

Availability of materials
Availability of labour
Capacity of the plant
Availability of capital

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