



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

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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

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	<u>503,250</u> [12]	
		567,450	
Less Stock 31/12/2013	W2	<u>(84,000)</u> [5]	(483,450)
Gross Profit			<u>211,550</u>
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	<u>12,800</u> [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		<u>1,800</u> [2]	<u>27,750</u>
			(151,930)
			59,620
Add Operating Income			
Bad debt recovered			<u>800</u> [2]
			60,420
Add Investment Income			<u>2,250</u> [4]
			62,670
Less Mortgage Interest	W8		<u>(8,325)</u> [5]
Net Profit			<u>54,345</u> [6]

(b)

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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	<u>96,000</u> [2]	<u>11,450</u> [3]	<u>84,550</u>	
		<u>816,000</u>	<u>11,450</u>	<u>804,550</u>	804,550
Financial Assets					
8% Investments					<u>100,000</u> [2]
					937,470
Current Assets					
Stock			84,000 [2]		
Debtors	W12		48,600 [2]		
Investment income due	W13		<u>1,500</u> [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			<u>9,000</u> [2]	(145,850)	<u>(11,750)</u>
					<u>925,720</u>
Financed by					
Creditors: amounts falling due after more than one year					
Mortgage					200,000 [2]
Capital and Reserves					
Capital				530,000 [1]	
Revaluation Reserve	W18			187,800 [3]	
Net Profit				<u>54,345</u>	
				772,145	
Drawings	W17			<u>(46,425)</u> [4]	<u>725,720</u>
Capital Employed					<u>925,720</u>

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	$2\% \times \text{€}640,000$	12,800
6.	Loss on sale of van	$40,000 - 16,000 - 10,000$	14,000
7.	Depreciation Delivery vans	$5,000 + 1,000 + 3,450$ $9,000 + 450$ $2,250 + 7,200$ $5,000 + 1,000 + 3,450$	9,450
8.	Mortgage Interest	$8,400 + 2,700 - 2,775$ $1,500 + 600 + 9,000 - 2,775$	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

51

(a)

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	<u>5,000</u>	[2]
Net cash inflow from operating activities	<u>244,000</u>	[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	<u>30,000</u> [2]	(65,000)
Equity dividends paid [1]		
Dividends paid during the year		<u>(60,000)</u> [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	<u>4,000</u> [1]	<u>(56,000)</u>
Decrease in cash		<u>(10,000)</u> [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	<u>80,000</u> [1]
Change in net debt	90,000
Net debt 1/1/2013	<u>(232,000)</u> [1]
Net debt 31/12/2013	<u>(142,000)</u> [1]

(b)

(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 effect on cash inflow.

An increase in creditors during the year increases cash inflow by €5,000 but has nil effect 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	<u>40,000</u>
	290,000
Less Depreciation provision on machinery 31/12/2013	<u>270,000</u>
Depreciation on disposed machine	<u>20,000</u>

Loss on disposal of fixed assets

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

Taxation

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

Interest

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

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

(b)

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(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.

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	<u>70,000</u>	<u>70,000</u>
	<u>280,000</u>	<u>280,000</u>

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	<u>150,000</u>	<u>----</u>	<u>150,000</u>
Value at 31/12/2013	<u>900,000</u>	<u>240,000</u>	<u>1,140,000</u>
Depreciation			
Balance 1/1/2013	81,000	25,000	106,000
Depreciation charge for the year	<u>15,000</u>	<u>48,000</u>	<u>63,000</u>
	96,000	73,000	169,000
Transfer on revaluation	<u>(96,000)</u>	<u>----</u>	<u>(96,000)</u>
Depreciation	----	<u>73,000</u>	<u>73,000</u>
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)

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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]
	<u>64,622</u>		<u>64,622</u>
Balance b/d	490	Balance b/d	63,819

(b)

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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)	<u>860 [4]</u>	<u>2,141</u>
			64,033
Deduct			
Credit Note adjustment	(v)	360 [4]	
Credit Note	(vi)	<u>344 [4]</u>	<u>(704)</u>
Net Balance as per adjusted Control Account			<u>63,329 [1]</u>

(c)

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(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)

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(i) **Cash Sales**

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

$$\text{Credit Sales} = \text{€}258,000$$

$$\text{Cash sales} = \text{€}950,000 - \text{€}258,000 = \text{€}692,000 \quad [12]$$

(ii) **Return on Capital Employed**

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

(iii) **Earnings per share**

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

(iv) **Dividend Yield**

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

(v) **Period to recoup price**

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

(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**

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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]

(d)

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	29,500	55,500	[2]
Vehicles	109,000	45,900	63,100	[3]
	<u>1,094,000</u>	<u>75,400</u>	1,018,600	
Investments			<u>40,000</u>	[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	4,100		[1]
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	(144,360)	(140,260)	[1]
			<u>918,340</u>	
Financed by				
Share Capital and Reserves	Authorised	Issued		
Ordinary Shares	600,000	450,000		[1]
Revaluation Reserve [54,200 + 50,000]		104,200		[3]
Profit and Loss balance		364,140	918,340	[2]
			<u>918,340</u>	

6

(e)

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	<u>(6,500)</u>	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	<u>(400)</u>	4,660
Purchases	35,400 + 2,500 – 1,600		36,300
Contract cleaning	3,600 + 400 – 500		3,500

Question 7

54

(a)

	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)

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

(c)

Statement of Corrected Net Profit

	€	€
Original Net Profit as per books		87,200
Add Discount disallowed (i)	50 [1]	
Discount received (iv)	<u>250</u> [1]	<u>300</u>
		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)	<u>3,000</u> [1]	<u>(11,155)</u>
Correct Net Profit		<u>76,345</u> [5]

(d)

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)		<u>32,900</u> [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	<u>852</u> [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)	<u>32,697</u> [2]	<u>(76,447)</u>	<u>133,405</u>
			<u>897,105</u>
Financed by			
Capital (810,000 + 4,260 + 8,800 + 6,000)	829,060 [3]		
Corrected Net Profit	<u>76,345</u> [1]		
		905,405	
Less Drawings (7,500 + 800)	<u>(8,300)</u> [1]		
		<u>897,105</u>	<u>897,105</u>

(e)

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.

(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)	<u>(354,025)</u>	[6]
Contribution		223,975	
Less Fixed Costs		<u>(105,000)</u>	[2]
Profit		<u><u>118,975</u></u>	[2]

(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		<u>4,000</u>	[1]
		19,000	
Less Closing Stock (1/10 x 19,000)		<u>(1,900)</u>	[1] (17,100)
Profit			<u><u>18,900</u></u>

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)	<u>4,000</u>	[1]
		15,000	
Less Closing Stock (1/10 x 15,000)		<u>(1,500)</u>	[1] (13,500)
Contribution	[1]		22,500
Less Fixed overheads			<u>(4,000)</u> [1]
Profit			<u><u>18,500</u></u>

(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	<u>(1,500)</u>	
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	Excel	
	Units	Units	
Required by sales	11,000	6,500	
Add Closing stock (80% of opening stock)	<u>640</u>	<u>440</u>	
	11,640	6,940	
Less Opening stock	<u>(800)</u>	<u>(550)</u>	
Budgeted production in units	<u>10,840</u>	<u>6,390</u>	

(b) **Raw Materials Purchases Budget**

	Material X		Material Y	
	Kgs		Kgs	
Required by production –				
Micro	(10,840 x 6)	65,040	54,200	(10,840 x 5)
Excel	(6,390 x 4)	<u>25,560</u>	<u>44,730</u>	(6,390 x 7)
		90,600	98,930	
Add Closing stock (80% of opening stock)		<u>5,600</u>	<u>4,000</u>	
		96,200	102,930	
Less Opening stock		<u>(7,000)</u>	<u>(5,000)</u>	
Required purchases of raw materials in Kg's		89,200	97,930	
Purchase Price		<u>€2</u>	<u>€4</u>	
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)	<u>18,000</u>	30,600	[4]
Purchases	(178,400 + 391,720)		<u>570,120</u>	[2]
			600,720	
Less Closing stock of raw materials				
X	(5,600 x 2)	11,200		
Y	(4,000 x 4)	<u>16,000</u>	<u>(27,200)</u>	[4]
			573,520	
Cost of Labour	(10,840 x 7 x 12)	910,560		
	(6,390 x 8 x 12)	<u>613,440</u>	1,524,000	[4]
Variable overheads	(10,840 x 7 x 5)	379,400		
	(6,390 x 8 x 5)	<u>255,600</u>	635,000	[4]
Fixed overheads			<u>180,400</u>	[2]
Cost of manufacture			<u>2,912,920</u>	[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)	<u>82,500</u>	186,500 [2]
Cost of Manufacture		<u>2,912,920</u>	[2]
		3,099,420	
Less Closing stock of finished goods			
Micro	(640 x 160)	102,400	
Excel	(440 x 184)	<u>80,960</u>	(183,360) [4]
Gross Profit			<u>1,673,940</u> [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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