**Coimisiún na Scrúduithe Stáit**
State Examinations Commission

# Leaving Certificate 2016

# 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.

## Accounting – Higher Level 2016

**Question 1**

**75**

**(a)**

### Manufacturing Account of Ryan Ltd for the year ended 31/12/2015 [1]

| | | | € | | € | |
|---|---|---|---|---|---|---|
| Opening stock of raw materials | | | | | 46,500 | [1] |
| Purchases of raw materials | **W 1** | | | | 496,200 | [4] |
| | | | | | 542,700 | |
| Less Closing stock of raw materials | | | | | (36,100) | [1] |
| **Cost of Raw Materials Consumed** | | | | | 506,600 | |
| **Direct Costs**: | | | | | | |
| Factory wages | **W 2** | | 213,200 | [5] | | |
| Hire of special equipment | | | 35,700 | [2] | | |
| Royalty payments | | | 30,500 | [2] | 279,400 | |
| **Prime Cost** | | | | | 786,000 | |
| **Factory Overheads**: | | | | | | |
| General factory overheads | **W 3** | | 95,200 | [6] | | |
| Depreciation - plant and machinery | **W 4** | | 31,100 | [3] | | |
| Loss on sale of machine | **W 5** | | 4,950 | [4] | 131,250 | |
| **Factory Cost** | | | | | 917,250 | |
| Add Work in progress 01/01/2015 | | | | | 33,200 | [3] |
| Less Work in progress 31/12/2015 | | | | | (34,200) | [3] |
| | | | | | 916,250 | |
| Less Sale of scrap materials | **W 6** | | | | (2,500) | [4] |
| Cost of manufacture | | | | | 913,750 | |

### Trading and Profit and Loss Account for the year ended 31/12/2015

| | | | | € | | € | |
|---|---|---|---|---|---|---|---|
| Sales | **W 7** | | | | | 1,337,000 | [5] |
| Less Cost of Sales | | | | | | | |
| Opening stock of finished goods | | | | 48,100 | [3] | | |
| Cost of manufacture | | | | 913,750 | [2] | | |
| | | | | 961,850 | | | |
| Less Stock of finished goods 31/12/2015 | **W 8** | | | (90,100) | [4] | (871,750) | |
| Gross Profit | | | | | | 465,250 | |
| **Less Expenses** | | | | | | | |
| **Administration** | | | | | | | |
| Administration expenses | | | | 49,200 | [2] | | |
| **Selling and Distribution** | | | | | | | |
| Provision for bad debts | **W 9** | 1,512 | [3] | | | | |
| Selling expenses | | 36,300 | [2] | 37,812 | | (87,012) | |
| | | | | | | 378,238 | |
| **Add Operating Income** | | | | | | | |
| Discount | **W 10** | | | 4,800 | [3] | | |
| Rent | **W 11** | | | 10,200 | [3] | 15,000 | |
| Operating profit | | | | | | 393,238 | |
| Investment income | **W 12** | | | | | 8,400 | [3] |
| | | | | | | 401,638 | |
| Less Debenture interest | **W 13** | | | | | (28,400) | [2] |
| **Net Profit** | | | | | | 373,238 | |
| Less Dividends paid | | | | | | (22,500) | [1] |
| Retained profit | | | | | | 350,738 | |
| Add Profit and loss balance 01/01/2015 | | | | | | 68,900 | [2] |
| Profit and loss balance 31/12/2015 | | | | | | 419,638 | [1] |

**(b)** **45**

**Balance Sheet as at 31/12/2015**

| | | Cost | | Acc. Dep. | | Net | |
|---|---|---|---|---|---|---|---|
| **Tangible Fixed Assets** | | **€** | | **€** | | **€** | |
| Factory buildings | **W 14** | 970,300 | **[2]** | 20,000 | **[1]** | 950,300 | |
| Plant and machinery | **W 15** | 302,000 | **[2]** | 96,650 | **[3]** | 205,350 | |
| | | 1,272,300 | | 116,650 | | 1,155,650 | |
| **Financial Assets** | | | | | | | |
| Investments | | | | | | 315,000 | **[2]** |
| | | | | | | 1,470,650 | |
| **Current Assets** | | | | | | | |
| Stock Raw materials | | 36,100 | **[3]** | | | | |
| Work in progress | | 34,200 | **[2]** | | | | |
| Finished goods | | 90,100 | **[2]** | 160,400 | | | |
| Debtors | **W 16** | 37,800 | **[5]** | | | | |
| Less Provision | | (1,512) | **[1]** | 36,288 | | | |
| Investment income due | | | | 8,400 | **[2]** | | |
| | | | | 205,088 | | | |
| **Less Creditors**: **amounts falling due within one year** | | | | | | | |
| Creditors | **W 17** | 59,400 | **[4]** | | | | |
| Bank | **W 18** | 38,300 | **[4]** | | | | |
| Rent prepaid | | 3,400 | **[1]** | | | | |
| Wages due | | 5,500 | **[1]** | | | | |
| PAYE, PRSI & USC | | 46,100 | **[2]** | | | | |
| Debenture interest due | | 28,400 | **[2]** | (181,100) | | 23,988 | |
| | | | | | | 1,494,638 | |
| **Financed by** | | | | | | | |
| **Creditors**: **amounts falling due after more than one year** | | | | | | | |
| 8% Debentures | | | | | | 375,000 | **[2]** |
| **Capital and Reserves** | | **Authorised** | | **Issued** | | | |
| Ordinary shares @ €1 each | | 600,000 | **[1]** | 500,000 | **[1]** | | |
| 5% Preference shares @ €1 each | | 250,000 | **[1]** | 200,000 | **[1]** | | |
| | | 850,000 | | 700,000 | | | |
| Profit and loss balance | | | | 419,638 | | 1,119,638 | |
| **Capital Employed** | | | | | | 1,494,638 | |

Workings

| | | | |
|---|---|---|---|
| 1. | Purchases – raw materials | 524,200 – 28,000 | 496,200 |
| 2. | Factory wages | 220,000 + 5,500 - 12,300 | 213,200 |
| 3. | General factory overheads | 86,400 + 10,000 - 1,200 | 95,200 |
| 4. | Depreciation - plant and machinery | 16,000 + 15,100<br>30,200 + 900 | 31,100 |
| 5. | Loss on sale of machine | 18,000 - 9,450 - 3,600 | 4,950 |
| 6. | Sale of scrap materials | 6,100 - 3,600 | 2,500 |
| 7. | Sales - finished goods | 1,352,000 – 15,000 | 1,337,000 |
| 8. | Closing Stock - finished goods | 77,600 + 12,500 | 90,100 |
| 9. | Provision for bad debts | [37,800 × 4%] | 1,512 |
| 10. | Discount | 6,000 - 1,200 | 4,800 |
| 11. | Rent | 8,500 + 5,100 – 3,400 prepaid | 10,200 |
| 12. | Investment income | 4% [315,000] × 8/12 | 8,400 |
| 13. | Debenture interest | 25,200 + 3,200<br>20,000 + 8,400 | 28,400 |
| 14. | Factory buildings | 930,000 + [28,000 + 12,300] | 970,300 |
| 15. | Accumulated depreciation - plant and machinery | 75,000 - 9,450 + 31,100 | 96,650 |
| 16. | Debtors | 52,000 + 800 – 15,000 | 37,800 |
| 17. | Creditors | 49,400 + 10,000 | 59,400 |
| 18. | Bank | 42,600 + 800 – 5,100<br>36,300 + 2,000 | 38,300<br>38,300 |

**Penalties**: 1 mark for the omission of expense heading 'selling and distribution' in profit and loss a/c
1 mark for the omission of 'total cost' figure for fixed assets.

**Question 2**

**(a)**

**22**

**Adjusted Debtors Control Account**

| | | € | | | | € | |
|---|---|---|---|---|---|---|---|
| Balance b/d | | 27,000 | [1] | Balance b/d | | 650 | [1] |
| Interest | (ii) | 6 | [5] | Discount allowed | (i) | 330 | [5] |
| Sales returns | (vi) | 15 | [5] | Contra | (iv) | 280 | [4] |
| Balance c/d | | 650 | [1] | Balance c/d | | 26,411 | |
| | | 27,671 | | | | 27,671 | |
| Balance b/d | | 26,411 | | Balance b/d | | 650 | |

**(b)**

**30**

| **Schedule of Debtors Accounts Balances** | | € | | € | |
|---|---|---|---|---|---|
| Balance as per list of debtors | | | | 25,396 | [3] |
| **Add** | | | | | |
| Sales – cash and credit | (iii) | | | 2,200 | [4] |
| | | | | 27,596 | |
| **Deduct** | | | | | |
| Discount allowed | (i) | 120 | [5] | | |
| Interest | (ii) | 30 | [5] | | |
| Contra | (iv) | 550 | [4] | | |
| Bills receivable | (v) | 1,120 | [4] | | |
| Sales returns | (vi) | 15 | [4] | (1,835) | |
| Net balance as per adjusted control account | | | | 25,761 | [1] |

**(c)**

**8**

(i) **Why debtors control accounts should be prepared**.

1. They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.
2. They locate errors quickly and narrow searching for errors to confined areas.
3. They are useful when a firm needs to find credit sales from incomplete records.
4. They allow amounts owed by debtors to be ascertained quickly by simply balancing the control accounts.

(ii) **Limitations of control accounts**

1. Control accounts do not identify which ledger account may contain an error.
2. Some types of errors are not revealed by the control account such as errors of commission, errors of omission, compensating errors, and errors of original entry.

**Question 3**

**(a)**

**25**

**Accumulated Fund 01/01/2015**

| | | € | | € |
|---|---|---|---|---|
| **Assets** | | | | |
| Clubhouse and course | | 650,000 | [1] | |
| Bar stock | | 6,000 | [1] | |
| Equipment | | 24,000 | [1] | |
| Bar debtors | | 355 | [1] | |
| Investments | **W 1** | 62,500 | [2] | |
| Levy due | | 1,000 | [2] | |
| Investment interest due | **W 2** | 300 | [2] | 744,155 |
| **Less Liabilities** | | | | |
| Life membership | | 40,000 | [2] | |
| Bar creditors | | 3,000 | [1] | |
| Wages due | | 1,500 | [1] | |
| Levy reserve fund | | 50,000 | [2] | |
| Subscriptions prepaid | | 1,400 | [2] | |
| Loan | | 30,000 | [1] | |
| Loan interest due | **W 3** | 600 | [3] | |
| Bank current account | | 8,500 | [1] | (135,000) |
| Accumulated fund 01/01/2015 | | | | 609,155 [2] |

**(b)**

**27**

**Income and Expenditure Account for the year ended 31/12/2015**

| | | € | | € | |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Bar profit | **W 4** | | | 55,515 | [4] |
| Investment interest | **W 2** | | | 2,500 | [2] |
| Subscriptions | **W 5** | | | 67,500 | [6] |
| Life membership | **W 6** | | | 5,000 | [2] |
| Catering profit | **W 7** | | | 2,300 | [2] |
| Competition profit | **W 8** | | | 3,500 | [1] |
| Entrance fees | | | | 10,000 | [1] |
| Annual sponsorship | | | | 11,400 | [1] |
| | | | | 157,715 | |
| **Less Expenditure** | | | | | |
| Sundry expenses | **W 9** | 122,850 | [2] | | |
| Loan interest | **W 3** | 2,400 | [1] | | |
| Depreciation - clubhouse and course | | 13,000 | [1] | | |
| Depreciation - equipment | | 8,400 | [1] | | |
| Bad debt | | 80 | [1] | (146,730) | |
| Surplus of income over expenditure | | | | 10,985 | [2] |

**(c)** **8**

**Levy –** This is a payment made to a club by its members to fund a special project such as a clubhouse extension. It must be used for the purpose for which it is collected. It is a capital receipt (on a once off basis or for a specific number of years) and is credited to a reserve fund. It is due to the members until it is used so it is treated as a long-term liability in the balance sheet.

**Life Membership –** This is where a club member pays a fee that entitles her/him to use the facilities of the club for the rest of her/his life. It is treated as a long-term liability in the balance sheet and can be written off to income over a stated number of years.

**Workings**

| | | | | |
|---|---|---|---|---|
| **1.** | **Investments** | | | |
| | 4% | = | 2,500 | |
| | Therefore 100% | = | | 62,500 |
| **2.** | **Investment interest** | | | |
| | 2,400 - 300 + 400 | = | | 2,500 |
| **3.** | **Loan interest** | | | |
| | 8% × 1.25 years | = | 10% | |
| | 33,000 | = | 110% | |
| | Loan (100%) | = | 30,000 | |
| | Total interest (10%) | = | 3,000 | |
| | Interest for 2014 | = | | 600 |
| | Interest for 2015 | = | | 2,400 |

| | | | |
|---|---|---|---|
| **4.** | **Bar Trading Account** | **€** | **€** |
| | Sales (76,300 - 355 + 500) | | 76,445 |
| | Stock 01/01/2015 | 6,000 | |
| | Add Purchases (33,600 – 3,000 + 1,230) | 31,830 | |
| | | 37,830 | |
| | Less Closing stock | (16,900) | (20,930) |
| | Bar profit | | 55,515 |
| **5.** | **Subscriptions** | | 102,900 |
| | Add prepaid 01/01/2015 | | 1,400 |
| | Less prepaid 31/12/2015 | | (800) |
| | Less life membership | | (10,000) |
| | Less levy 2015 | | (25,000) |
| | Less levy 2014 | | (1,000) |
| | | | 67,500 |

| | | | | |
|---|---|---|---|---|
| **6.** | **Life Membership** | 50,000 (40,000 + 10,000) ÷ 10 | = | 5,000 |
| **7.** | **Catering Profit** | 6,500 - 4,200 (4800 - 600) | = | 2,300 |
| **8.** | **Competition Profit** | 25,600 - 22,100 | = | 3,500 |
| **9.** | **Sundry Expenses** | 124,350 - 1,500 | = | 122,850 |

**Question 4**

**(a)**

**52**

**Balance Sheet as at 31/12/2015**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Intangible Assets** | | | | | **€** | **€** | |
| Goodwill | | **W 1** | | | | 51,100 | **[3]** |
| **Fixed Assets** | | | | | | | |
| Buildings | (450,000 + 295,000) | | | | 745,000 | **[4]** | |
| Equipment | | **W 2** | | | 11,200 | **[3]** | 756,200 |
| **Financial Assets** | | | | | | | |
| Investments | | | | | | 15,639 | **[5]** |
| | | | | | | 822,939 | |
| **Current Assets** | | | | | | | |
| Stock at 31/12/2015 | | | 17,300 | **[2]** | | | |
| Trade debtors | | | 37,300 | **[2]** | | | |
| Bank | | **W 3** | 112,700 | **[5]** | | | |
| Rates prepaid | | **W 4** | 2,700 | **[3]** | 170,000 | | |
| **Less Creditors**: **amounts falling due within 1 year** | | | | | | | |
| Creditors | | | 44,600 | **[2]** | | | |
| Interest due | | **W 5** | 1,750 | **[3]** | | | |
| Electricity due | | | 760 | **[2]** | (47,110) | | |
| Working capital | | | | | | 122,890 | |
| | | | | | | 945,829 | |
| **Financed by** | | | | | | | |
| **Creditors**: **amounts falling due after more than 1 year** | | | | | | | |
| Loan | | | | | | 350,000 | **[2]** |
| **Capital -** Balance at 01/01/2015 | | | | | 560,000 | **[2]** | |
| Add Capital introduced | | | | | 4,200 | **[3]** | |
| Less Drawings | | **W 6** | | | (31,643) | **[7]** | 532,557 |
| | | | | | | 882,557 | |
| Add Net profit | | | | | | 63,272 | **[4]** |
| Capital employed | | | | | | 945,829 | |

**(b)**

**8**

O'Neill should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O'Neill to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates or net worth to ascertain profit.

**Workings**

| | | | | |
|---|---|---|---|---|
| **1.** | **Goodwill account –** (Purchase price less net worth) | | | **€** |
| | Purchase price | | | 490,000 |
| | **Assets** | | | |
| | Buildings | 450,000 | | |
| | Stock | 15,700 | | |
| | Rates prepaid | 2,400 | | |
| | Debtors | 26,600 | 494,700 | |
| | **Less Liabilities** | | | |
| | Wages due | 4,800 | | |
| | Creditors | 51,000 | (55,800) | |
| | Net worth | | | (438,900) |
| | **Goodwill** | | | 51,100 |

| | | |
|---|---|---|
| **2.** | **Equipment** less drawings 30% [16,000 - 4,800] | 11,200 |

**3.** **Bank Account**

| | € | | € |
|---|---|---|---|
| Lodgement | 560,000 | Business | 490,000 |
| Loan | 350,000 | Drawings | 7,800 |
| Capital introduced | 4,200 | Wages | 94,000 |
| Cash lodgements | 145,000 | Equipment | 16,000 |
| | | Purchases-premises | 295,000 |
| | | Investments | 15,600 |
| | | Light and heat | 9,200 |
| | | Interest | 3,500 |
| | | Rates | 10,800 |
| | | College fees | 4,600 |
| | | Balance | **112,700** |
| | 1,059,200 | | 1,059,200 |

| | | |
|---|---|---|
| **4.** | **Rates** - amount paid | 10,800 |
| | Add rates prepaid 01/01/2015 | 2,400 |
| | Less rates prepaid 31/12/2015 [25% × 10,800] | **(2,700)** |
| **5.** | **Interest** - amount paid | 3,500 |
| | Add interest due | 1,750 |
| | | 5,250 |
| | Less drawings | **(1,575)** |
| **6.** | **Drawings** | |
| | Drawings of stock | 9,880 |
| | Cash/bank | 7,800 |
| | College fees – family member | 4,600 |
| | Equipment | 4,800 |
| | Light and heat | 2,988 |
| | Interest | 1,575 |
| | | **31,643** |
| **7.** | **Light and heat** - amount paid | 9,200 |
| | Add electricity due 31/12/2015 | 760 |
| | | 9,960 |
| | Less drawings [30% × 9,960] | **(2,988)** |

**Question 5**

**(a)**

**50**

(i) **Cash Purchases** = total purchases less credit purchases

Total purchases = cost of sales + closing stock - opening stock

Total purchases = 752,000 + 65,000 - 55,000

Total purchases = 762,000

Credit purchases = $\frac{90{,}000 \times 12}{2}$ = 540,000

Cash purchases = 762,000 - 540,000 = **222,000** **[12]**

(ii) **Dividend Yield**

$\frac{\text{Dividend per share} \times 100}{\text{Market price}} = \frac{7 \times 100}{125} =$ **5.6%** **[10]**

(iii) **Price earnings ratio**

$\frac{\text{Market price}}{\text{EPS}} = \frac{125}{23.6} =$ **5.3 to 1**
**5.3 years** **[10]**

(iv) **Return on Capital Employed**

$\frac{\text{Operating profit} \times 100}{\text{Capital employed}} = \frac{145{,}000 \times 100}{1{,}128{,}000} =$ **12.85%** **[9]**

(v) **Dividend Cover**

$\frac{\text{Net profit - preference dividend}}{\text{Ordinary dividend}} = \frac{133{,}000 - 15{,}000}{35{,}000} =$ **3.37 times** **[9]**

**(b)**

**35**

**Profitability [6]**
The ROCE has improved from 10.3% in 2014 to 12.85% in 2015. Doherty Ltd is a profitable company. The return is well above the return from risk free investments of 2**%**. The return is also above the company's cost of borrowing of 6%. The company is making efficient use of its resources.
Shareholders will be pleased with this. If this upward trend continues the debentures can be paid in 2017 without having to sell the secured assets.

**Dividend Policy [6]**
The dividend per share has improved from 6c in 2014 to 7c in 2015. The dividend yield has improved from 5.22% in 2014 to 5.6% in 2015. This is above the return from risk free investments of 2%. The dividend cover has also improved from 2.2 times in 2014 to 3.37 times in 2015. While shareholders will be happy with the improving trends, they will feel that the company has the scope to pay a higher proportion of profits in dividends. Alternatively they could be pleased that profits and cash are retained for the purpose of repaying debenture holders/expansion.

**Liquidity [5]**
The quick ratio has improved from 1.2 to 1 in 2014 to 1.63 to 1 in 2015. Doherty Ltd. has good liquidity. It should have no problem paying short term debts when they fall due. There is 163c available in liquid assets for every €1 owed in the short term. Shareholders will be pleased with this as there is good ability to pay a dividend and interest as well as having funds available for investment.

**Market Price of a Share [4]**
The market price of a share has improved from €1.15 in 2014 to €1.25 in 2015. This indicates market confidence in the company which will please shareholders. The price earnings ratio has fallen from 8.7 years to 5.3 years and this means it will take a shorter time-period for an ordinary shareholder to recover his/her investment in one share.

**Gearing [6]**
The gearing has improved from 54% in 2014 to 44.33% in 2015. The company has moved into a low geared position. The company is not dependent on outside borrowing and is not at risk from outside investors. The interest cover has improved from 6 times in 2014 to 12.08 times in 2015. The company has no problem paying its interest charges.

**Sector [5]**
The company is in the tourist sector. This is a growing industry at the moment. As economies around the world recover, people have more disposable income to spend on holidays. The weakness of the euro against sterling and the dollar also makes Ireland a cheaper destination for foreign visitors. If there is continued economic growth and the euro remains weak, then future prospects are good.

Overall shareholders will be happy with this and I would buy the shares in the company. **[3]**

**(c)** **15**

(i) **Gearing -** This is a measure of how a business is financed on a long-term basis. It measures the relationship between fixed interest debt (loans/debentures + preference shares) and total capital employed/equity. When this is less than 50%/100%, the business is lowly geared. Above 50%/100% is highly geared. Low gearing is preferable.

(ii) **Benefits of low gearing -** When fixed interest debt is a small proportion of overall capital it has the following benefits:
1. Low interest repayments means more profits are available for investment elsewhere in the business.
2. Shareholders are more likely to get a dividend when gearing is low.
3. The business should find it easier to raise additional loan finance.
4. Less risk of liquidation due to not being able to make interest payments.

(iii) **Possible ways to reduce gearing**:
1. Sell more ordinary shares.
2. Reduce or repay loans.
3. Increase reserves/retained profits.
4. Convert long-term debt to ordinary shares.

**Question 6**

**(a)** **54**

| | | Dr € | Cr € |
|---|---|---|---|
| (i) | Equipment a/c | 1,800 **[2]** | |
| | Creditors a/c | | 5,600 **[2]** |
| | Purchases a/c | 2,800 **[3]** | |
| | Suspense a/c | 1,000 **[3]** | |
| | Correction of an incorrect treatment of a credit purchase **[1]** | | |
| (ii) | Debtors a/c | 1,530 **[3]** | |
| | Sales a/c | | 1,530 **[3]** |
| | Motor vehicles a/c | | 2,400 **[3]** |
| | Provision for depreciation on motor vehicles a/c | 900 **[3]** | |
| | Cash a/c | 1,350 **[3]** | |
| | Loss on sale – profit and loss a/c | 150 **[3]** | |
| | Correction of an incorrect treatment of a delivery van sale **[1]** | | |
| (iii) | Profit and loss a/c | 800 **[2]** | |
| | Insurance company a/c (balance sheet) | | 340 **[3]** |
| | Tenant rent a/c (balance sheet) | | 460 **[3]** |
| | Being recording of insurance due and rent receivable prepaid omitted from books **[1]** | | |
| (iv) | Sales returns a/c | 880 **[2]** | |
| | Debtors a/c | | 880 **[2]** |
| | Being correction of incorrect recording of credit note to debtor **[1]** | | |
| (v) | Purchases/purchases returns a/c | 10,500 **[3]** | |
| | Creditors a/c | 16,000 **[3]** | |
| | Suspense a/c | | 26,500 **[3]** |
| | Being correction of the incorrect treatment of purchases returns **[1]** | | |

**(b)** **6**

**Suspense Account**

| | | | | | |
|---|---|---|---|---|---|
| Original difference | | 25,500 **[2]** | Creditors/purchases | (v) | 26,500 **[2]** |
| Equipment/creditors | (i) | 1,000 **[2]** | | | |
| | | 26,500 | | | 26,500 |

**(c)**

**14**

**Statement of Corrected Net Profit**

| | | | € | € |
|---|---|---|---|---|
| Original net profit as per books | | | | 88,000 |
| **Add** | Sales/motor vehicles | (ii) | | 1,530 **[2]** |
| | | | | 89,530 |
| **Less** | Purchases | (i) | 2,800 **[2]** | |
| | Loss on sale | (ii) | 150 **[2]** | |
| | Rent/insurance | (iii) | 800 **[1]** | |
| | Sales returns | (iv) | 880 **[1]** | |
| | Purchases returns | (v) | 10,500 **[1]** | (15,130) |
| **Correct net profit** | | | | 74,400 **[5]** |

**(d)**

**20**

**Balance Sheet as at 31/12/2015**

| **Fixed Assets** | | € | € | € |
|---|---|---|---|---|
| Premises | | 630,000 | --- | 630,000 **[1]** |
| Equipment | [56,000 + 1,800] | 57,800 **[1]** | 12,000 **[1]** | 45,800 |
| Motor vehicles | [92,000 – 2,400] [26,000 – 900] | 89,600 **[1]** | 25,100 **[1]** | 64,500 |
| | | 777,400 | 37,100 | 740,300 |
| **Current Assets** | | | | |
| Stock (including suspense) | [98,000 – 25,500] | | 72,500 **[1]** | |
| Debtors | [41,600 + 1,530 - 880] | | 42,250 **[3]** | |
| Cash | [2,400 + 1,350] | | 3,750 **[2]** | |
| | | | 118,500 | |
| **Less**: **Creditors**: **amounts falling due within 1 year** | | | | |
| Creditors | [72,000 + 5,600 - 16,000] | 61,600 **[3]** | | |
| Insurance company | | 340 **[1]** | | |
| Creditor - tenant | | 460 **[1]** | | |
| Bank | | 22,000 **[1]** | (84,400) | 34,100 |
| | | | | 774,400 |
| **Financed by**: | | | | |
| Capital | | | 700,000 **[2]** | |
| Profit and loss account | | | 74,400 **[1]** | 774,400 |
| | | | | 774,400 |

**(e)**

**6**

**Compensating errors**: This is where an error on the debit side of one account is compensated by another error of an equal amount on the credit side of another account. For example, a cash payment of €550 for repairs entered as €55 on the debit of the repairs account and on the credit side of the cash account.

**Errors of original entry**: These are errors made in the books of first entry which are then, subsequently, posted to the appropriate ledger accounts. For example, credit purchases from T. Long €223 entered as €322 in the purchases book and posted accordingly to both the purchases account and to Long's account.

**Question 7**

**40**

**Profit and Loss Account of Atkinson plc for the year ended 31/12/2015**

| | | | € | |
|---|---|---|---|---|
| Turnover | | | 1,799,700 | [2] |
| Cost of sales | W 1 | | (1,191,000) | [5] |
| Gross profit | | | 608,700 | |
| Distribution costs | W 2 | | (179,000) | [3] |
| Administrative expenses | W 3 | | (329,250) | [7] |
| | | | 100,450 | |
| Other operating income | W 4 | | 67,250 | [4] |
| Operating profit | | | 167,700 | |
| Investment income | W 5 | | 15,000 | [3] |
| Profit on the sale of land | | | 35,000 | [2] |
| | | | 217,700 | |
| Interest payable | | | (14,000) | [3] |
| Profit on ordinary activities before taxation | | [1] | 203,700 | |
| Tax on profit on ordinary activities | | | (56,000) | [2] |
| Profit on ordinary activities after taxation | | | 147,700 | |
| Dividend paid | | | (43,000) | [2] |
| Profit retained for the year | | | 104,700 | |
| Profit brought forward on 01/01/2015 | | | 72,000 | [2] |
| Profit carried forward on 31/12/2015 | | | 176,700 | [4] |

**26**

**Balance Sheet of Atkinson plc as at 31/12/2015**

| | | | € | | € | | € | |
|---|---|---|---|---|---|---|---|---|
| **Fixed Assets** | | | | | | | | |
| Intangible assets | | | | | | | 22,000 | [1] |
| Tangible assets | | | | | | | 928,000 | [2] |
| Financial assets | | | | | | | 250,000 | [1] |
| | | | | | | | 1,200,000 | |
| **Current Assets** | | | | | | | | |
| Stock | | | 76,000 | [1] | | | | |
| Debtors | W 6 | | 123,100 | [3] | | | | |
| Bank | | | 90,000 | [1] | 289,100 | | | |
| **Creditors**: **amounts falling due within 1 year** | | [1] | | | | | | |
| Trade creditors | | | 94,000 | [1] | | | | |
| Taxation | W 7 | | 77,300 | [2] | | | | |
| Other creditors | W 8 | | 105,800 | [4] | (277,100) | | | |
| Net current assets | | | | | | | 12,000 | |
| Total assets less current liabilities | | | | | | | 1,212,000 | |
| **Creditors**: **amounts falling due after more than 1 year** | | | | | | | | |
| 7% Debentures | | | | | | [2] | 200,000 | |
| **Capital and Reserves** | | | | | | | | |
| Issued shares | | | | | 600,000 | [2] | | [1] |
| Revaluation reserve | W 9 | | | | 235,300 | [3] | | |
| Profit carried forward | | | | | 176,700 | [1] | | |
| | | | | | | | 1,012,000 | |
| | | | | | | | 1,212,000 | |

**Notes to the Accounts**

**22**

**1. Accounting policy notes on Tangible Fixed Assets and Stock [5]**

Buildings were re-valued at the end of 2015 and were included in the accounts at their re-valued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value/cost of the tangible assets over their estimated useful economic life, as follows:

Buildings - 2% per annum - straight line basis.
Vehicles - 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 | 72,000 |
| Patent amortised | 11,000 |
| Directors' remuneration | 26,000 |
| Auditors' fees | 18,000 |

**3. Dividends [2]**

| | |
|---|---|
| Ordinary dividend | |
| Paid 6.96c per share | 33,400 |
| | |
| Preference dividend | |
| Paid 8c per share | 9,600 |

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

| | **Land/Buildings** | **Vehicles** | **Total** |
|---|---|---|---|
| Value 01/01/2015 | 785,000 | 290,000 | 1,075,000 |
| Disposal | (85,000) | | (85,000) |
| Revaluation surplus 31/12/2015 | 100,000 | | 100,000 |
| Value at 31/12/2015 | 800,000 | 290,000 | 1,090,000 |
| | | | |
| Depreciation 01/01/2015 | 121,300 | 104,000 | 225,300 |
| Charge for the year | 14,000 | 58,000 | 72,000 |
| | 135,300 | 162,000 | 297,300 |
| Transfer on revaluation | (135,300) | - | (135,300) |
| Depreciation 31/12/2015 | ------ | 162,000 | 162,000 |
| | | | |
| Net book value 01/01/2015 | 663,700 | 186,000 | 849,700 |
| | | | |
| Net book value 31/12/2015 | 800,000 | 128,000 | 928,000 |

**5. Contingent Liability [3]**

The company has provided €60,000 for a claim made by an employee for unfair dismissal. The company's legal advisers have advised that the company will probably be liable for the full €60,000 of the claim.

**Workings**

| | | | | |
|---|---|---|---|---|
| 1. | Cost of sales | 91,000 + 1,165,000 + 11,000 - 76,000 | = | 1,191,000 |
| 2. | Distribution costs | 121,000 + 58,000 | = | 179,000 |
| 3. | Administrative expenses | 203,000 + 18,000 + 26,000 + 8,250 + 14,000 + 60,000 | = | 329,250 |
| 4. | Other operating income | 46,000 + 8,250 + 13,000 | = | 67,250 |
| 5. | Investment income | 5,400 + 9,600 | = | 15,000 |
| 6. | Debtors | 129,000 - 15,500 + 9,600 | = | 123,100 |
| 7. | Taxation | 21,300 + 56,000 | = | 77,300 |
| 8. | Other creditors | 18,000 + 26,000 + 1,800 + 60,000 | = | 105,800 |
| 9. | Revaluation reserve | 100,000 + 121,300 + 14,000 | = | 235,300 |

**(b)** **12**

(i) Regulation is important for the following reasons:

1. To ensure that financial statements are consistent from year to year.
2. To ensure that financial statements can be easily compared with other businesses.
3. To ensure that financial statements comply with national and international law.
4. To ensure that the required accounting information is available to external users (e.g. banks).
5. Good regulation makes fraud less likely and builds trust among the investing public.

(ii) The European Union influences regulation by issuing directives. Directives are instructions that are binding on member states. Member states are given a fixed period of time to implement the directive into national law. The purpose of directives is to harmonise accounting practice in member states. An example would be the fourth directive.

**Question 8**

**80**

**(a)**

| Overhead | | Basis | Total | Prod 1 | | Prod 2 | | Service A | | Service B | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Indirect materials | | Given | 380,000 | 245,000 | | 135,000 | | | | | |
| Indirect labour | | Given | 400,000 | 280,000 | | 120,000 | | | | | |
| Machine maintenance | [1] | Machine hours | 12,000 | 7,200 | [1] | 4,800 | [1] | | | | |
| Dep. – buildings | [1] | Book value | 30,000 | 15,000 | [1] | 7,500 | [1] | 5,000 | [1] | 2,500 | [1] |
| Factory L & H | [1] | Volume | 18,000 | 9,000 | [1] | 4,500 | [1] | 3,000 | [1] | 1,500 | [1] |
| Factory cleaning | [1] | Floor area | 8,000 | 3,200 | [1] | 2,400 | [1] | 1,600 | [1] | 800 | [1] |
| Canteen | [1] | No. of employees | 5,600 | 3,200 | [1] | 1,600 | [1] | 800 | [1] | ----- | |
| | | | 853,600 | 562,600 | [1] | 275,800 | [1] | 10,400 | [1] | 4,800 | [1] |

**(b)**

| | Production 1 | | Production 2 | | Service A | Service B |
|---|---|---|---|---|---|---|
| Overhead costs | 562,600 | | 275,800 | | 10,400 | 4,800 |
| Apportion Service A [70%/30%] | 7,280 | [2] | 3,120 | [2] | (10,400) | |
| Apportion Service B [60%/40%] | 2,880 | [2] | 1,920 | [2] | | (4,800) |
| | 572,760 | | 280,840 | | | |

**(c)**

**Overhead Rate Production 1 - (Machine Hours)**

$$\frac{572{,}760}{30{,}000 \text{ hours}} = €19.09 \text{ per machine hour } [6]$$

**Overhead Rate Production 2 - (Labour Hours)**

$$\frac{280{,}840}{45{,}000 \text{ hours}} = €6.24 \text{ per labour hour } [6]$$

**(d)**

| **Selling price of Job 650** | **€** | |
|---|---|---|
| Direct materials (7,500 + 2,800) | 10,300.00 | [4] |
| Direct labour (4,000 + 3,900) | 7,900.00 | [4] |
| Prime cost | 18,200.00 | |
| Overheads | | |
| Production 1 (120 machine hours × €19.09) | 2,290.80 | [4] |
| Production 2 (100 labour hours × €6.24) | 624.00 | [4] |
| Cost of Job 650 | 21,114.80 | |
| Margin of 20% | 5,278.70 | [2] |
| Selling price of Job 650 | 26,393.50 | [6] |

**(e)** **[10]**

(i) **Re apportionment of costs**
This is the term used where service department costs are reapportioned/divided between production departments because overheads can only be recovered by being included in the cost of production.

(ii)
**Absorption rates**
Per labour hour
Per machine hour
Per unit
Percentage of prime cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge for tendering purposes.

**Question 9**

**80**

**(a)**

| Production Budget | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **July** | | **Aug** | | **Sept** | | **Oct** | | **Nov** |
| Sales | 9,000 | [1] | 9,750 | [1] | 11,000 | [1] | 12,000 | [1] | 12,500 |
| **Add** Closing stock | 5,850 | [1] | 6,600 | [1] | 7,200 | [1] | 7,500 | [1] | 7,680 |
| | 14,850 | | 16,350 | | 18,200 | | 19,500 | | 20,180 |
| **Less** Opening stock | ------- | | (5,850) | [1] | (6,600) | [1] | (7,200) | [1] | (7,500) |
| Required for production | 14,850 | | 10,500 | | 11,600 | | 12,300 | | 12,680 |

**(b)**

| Raw Materials Purchases Budget | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **July** | | **Aug** | | **Sept** | | **Oct** | | **Nov** |
| Units of production | 14,850 | [½] | 10,500 | [½] | 11,600 | [½] | 12,300 | [½] | 12,680 |
| Materials per unit | × 3 | [½] | × 3 | | × 3 | | × 3 | | × 3 |
| Required for production | 44,550 | [½] | 31,500 | [½] | 34,800 | [½] | 36,900 | [½] | 38,040 |
| **Add** Closing stock | 6,300 | [½] | 6,960 | [½] | 7,380 | [½] | 7,608 | [1] | |
| **Less** Opening stock | ------- | | (6,300) | [½] | (6,960) | [½] | (7,380) | [½] | |
| Required for purchases | 50,850 | [½] | 32,160 | [½] | 35,220 | [½] | 37,128 | [½] | |
| Price per kg | × 4 | [½] | × 4 | | × 4 | | × 4 | | |
| Cost of raw materials | €203,400 | [½] | €128,640 | [½] | €140,880 | [½] | €148,512 | [½] | |

Total purchases €621,432

**(c)**

| Cash Budget | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Receipts** | **July** | | **August** | | **September** | | **October** | |
| Cash sales | 81,000 | [1] | 87,750 | [1] | 99,000 | [1] | 108,000 | [1] |
| Credit sales 1 month | | | 94,500 | [1] | 102,375 | [1] | 115,500 | [1] |
| Credit sales 2 month | | | | | 94,500 | [1] | 102,375 | [1] |
| | 81,000 | | 182,250 | | 295,875 | | 325,875 | |
| **Payments** | | | | | | | | |
| Purchases | | | 203,400 | [1] | 128,640 | [1] | 140,880 | [1] |
| Wages | 23,500 | [1] | 24,625 | [1] | 26,500 | [1] | 28,000 | [1] |
| Variable overheads | 59,400 | [1] | 42,000 | [1] | 46,400 | [1] | 49,200 | [1] |
| Fixed overheads | 27,000 | [1] | 27,000 | | 27,000 | | 27,000 | |
| Equipment | 60,000 | [1] | | | | | | |
| Loan repayments | | | 1,000 | [1] | 1,000 | | 1,000 | |
| Interest | | | 400 | [1] | 400 | | 400 | |
| | 169,900 | | 298,425 | | 229,940 | | 246,480 | |
| Net monthly cash flow | (88,900) | [1] | (116,175) | [1] | 65,935 | [1] | 79,395 | [1] |
| Loan | 48,000 | [1] | | | | | | |
| Opening cash balance | | | (40,900) | [1] | (157,075) | [1] | (91,140) | [1] |
| Closing cash balance | (40,900) | | (157,075) | | (91,140) | | (11,745) | [2] |

**(d) Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2016**

| | € | € | € |
|---|---|---|---|
| Sales | | | 1,252,500 **[1]** |
| Less cost of sales | | | |
| Opening stock | | ----- | |
| Purchases | | 621,432 **[1]** | |
| | | 621,432 | |
| Closing stock - finished goods (7,500 × €20) | 150,000 **[1]** | | |
| - raw materials (7,608 × €4) | 30,432 **[1]** | (180,432) | (441,000) |
| Gross Profit | | | 811,500 |
| **Less Expenses** | | | |
| Wages | | 102,625 **[1]** | |
| Variable overheads | | 197,000 **[1]** | |
| Fixed overheads | | 108,000 **[1]** | |
| Depreciation | | 4,000 **[1]** | (411,625) |
| Operating profit | | | 399,875 |
| Less interest | | | (1,200) **[1]** |
| Net profit | | | 398,675 **[4]** |

**(e)** **[9]**

(i) Recommendations

1. Reduce requirement for closing stock of finished goods, particularly in earlier months to reduce the costs of production.
2. Negotiate a lower price than the €4 per kg, from suppliers when buying raw materials and this will reduce cash expenditure.
3. Encourage debtors to pay earlier by offering discounts for early payment/reduce the period of credit allowed from 2 months to one month, which will increase receipts.
4. Postpone the purchase of equipment in July and instead lease the equipment. This will reduce the deficit in July by €12,000 (€60,000 – €48,000) and by the interest and loan repayments €1,400 thereafter.

(ii)

1. Market research and trends/opinion of sales representatives may be a reliable indicator of potential sales.
2. What is the price to be charged for the product or service?
3. Is the level of competition in the market place intense or not?
4. Is the economy expected to grow over the coming months?

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