AN ROINN OIDEACHAIS

LEAVING CERTIFICATE EXAMINATION, 1997

09803

ACCOUNTING — HIGHER LEVEL

(400 marks)

WEDNESDAY 18TH JUNE 1997 — MORNING 9.30 a.m. to 12.30 p.m.

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).

This section has 4 questions (Numbers 1–4). The first question carries 120 marks and the remaining three questions carry 60 marks each.
Candidates should answer either **QUESTION 1 only** OR else attempt any **TWO** of the remaining three questions in this section.

Section 2: Financial Accounting (200 marks).

This section has three questions (Numbers 5–7). Each question carries 100 marks.
Candidates should answer any **TWO** questions.

Section 3: Management Accounting (80 marks).

This section has two questions (Numbers 8 and 9). Each question carries 80 marks.
Candidates should answer **ONE** of these questions.

Calculators

Calculators may be used in answering the questions on this paper: however, it is very important that workings are shown in the answer-book(s) so that full credit can be given for correct work.

SECTION 1 (120 marks)

Answer **Question 1 OR TWO** other questions.

1. Final Accounts including a Manufacturing Account

Young Ltd., a manufacturing firm, has an authorised capital of £900,000, divided into 600,000 Ordinary Shares at £1 each and 300,000 8% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1996.

	£	£
Land and Buildings (cost £420,000)	342,000	
Plant and Machinery (cost £160,000)	112,000	
Profit and Loss Balance 1/1/1996		55,500
Bank		9,400
Debtors and Creditors	92,500	64,200
Purchases of raw materials	385,900	
Sales		701,500
Sale of scrap materials		6,500
Direct factory wages	135,200	
General factory expenses (incorporating suspense)	38,500	
Selling and Distribution expenses	11,400	
Administration expenses	50,000	
9% Debentures (including £30,000 issued on 1/5/1996)		80,000
Stocks on hand at 1/1/1996:		
Finished Goods	77,000	
Raw Materials	44,000	
Work in Progress	21,000	
Interim dividends for 6 months	26,000	
Issued Share Capital — Ordinary Shares		300,000
Preference Shares		100,000
VAT		18,400
	1,335,500	1,335,500

The following information and instructions are to be taken into account:

(i) Stock on hand at 31/12/1996:

	£
Finished goods	79,000
Raw materials	47,000
Work in progress	24,000

(ii) Included in the figure for sale of scrap materials is £500 received for the sale of obsolete machinery. This machinery had cost £2,000 on 1/4/1992. The cheque had been entered in the bank account. These were the only entries made in the books.

(iii) During 1996, Young Ltd., built an extension to the warehouse. The work was carried out by the company's own employees. The cost of their labour £16,000 is included in factory wages. The materials, costing £24,000, were taken from stocks. No entry had been made in the books in respect of this extension.

(iv) It was discovered that goods, which cost the firm £5,000 to produce, were sent to a customer on a "sale or return basis". These goods were treated in the books as a credit sale at cost plus 20%.

(v) The suspense figure arises as a result of discount allowed £400 entered only in the discount account.

(vi) A full year's depreciation on fixed assets is to be provided as follows:
Plant and Machinery — 20% of cost
Buildings — 2% of cost (Cost of Land £60,000)

(vii) At the end of 1996 the company re-valued the Land and Buildings to £550,000.

(viii) The Directors are proposing that:
1. the preference dividend due be paid.
2. the total ordinary dividend for the year should be 10p per share.
3. provision should be made for debenture interest.
4. provision should be made for corporation tax of £10,000.

You are required to:

(*a*) Prepare manufacturing, trading and profit and loss accounts for the year ended 31/12/1996. (80)

(*b*) Prepare a balance sheet as at 31/12/1996. (40)

(120 marks)

2. Correction of errors and suspense account

The Trial Balance of J. Yeats, a garage owner, failed to agree on 31/12/1996. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of £24,000.

On checking the books, the following errors and omissions were discovered:

(i) A motor car, purchased on credit from P. Wynne for £8,000, had been entered on the incorrect side of Wynne's account and credited as £8,800 in the equipment account.

(ii) Car parts, previously sold on credit for £540, had been returned to Yeats. These returns had been incorrectly entered as £40 on the credit side of the equipment account and as £450 on the debit side of the purchases account.

(iii) A private debt for £380, owed by Yeats, had been offset in full against a business debt of £400, owed to the firm for work previously carried out. No entry had been made in the books in respect of this offset.

(iv) Yeats had returned a motor car, previously purchased on credit from a supplier for £11,800, and had entered this transaction in the relevant ledger accounts incorrectly as £18,100. However, a credit note subsequently arrived from the supplier showing a transport charge of £100 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of £11,700 in the creditor's account.

(v) Yeats had won a private holiday prize for two, worth £2,000. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to a creditor as payment in full of a debt of £1,200. No entry had been made in the books.

You are required to:

(*a*) Journalise the necessary correction. (40)

(*b*) Prepare a statement showing the correct net profit. (20)

(60 marks)

3. Service Firm

The following were included in the assets and liabilities of Jane Woods, a dentist, on 1/1/1996:

Surgery £80,000; Equipment £50,000; Motor Car £18,000; Creditors for medical supplies £2,400; Stock of medical supplies £3,600; 6% Investments £100,000; Owed from medical insurance scheme £9,500; 8% Fixed Mortgage £60,000; Capital £170,700.

The following is her Receipts and Payments account for the year ended 31/12/1996:

Receipts and Payments Account for Jane Woods for year ended 31/12/1996

		£			£
Jan 1	Balance at bank	2,400		Medical Supplies	12,000
	Sale of equipment (cost £16,000)	6,000		Light and Heat	2,200
	Medical Insurance Scheme	17,680		Telephone and Postage	2,600
	Receipts from private patients	75,000		Wages of receptionist	8,000
	Investment income	4,500		Interest on fixed mortgage	4,000
				Car expenses	4,600
				Insurance	2,700
				Sponsorship of prize at local swimming gala	500
				Investment bonds (purchased 31/12/96)	40,000
				Drawings	21,320
			Dec 31	Balance at bank	7,660
		105,580			105,580

The following information and instructions are to be taken into account:

(i) Stock of medical supplies at 31/12/1996 £4,100.

(ii) The figure for bank balance at 31/12/96 does not take into account bank charges £80 and a dishonoured cheque £350 received from a private patient and lodged in late December.

(iii) The figure for cash drawings includes wages £1,000 for 2 weeks paid to a substitute dentist and you are required to provide for a further 3 weeks wages due.

(iv) 80% of light and heat and telephone and postage relates to the dental practice and the remainder is private.

(v) Depreciate fixed assets on 31/12/1996 as follows:

Equipment	—	20% of cost
Motor Car	—	20% of cost
Surgery	—	2% of cost

Note: Fixed assets are given at cost and depreciation on them has been accumulated for 2 years to 31/12/1995.

(vi) Fees due from medical insurance scheme and private patients are, respectively £7,000 and £550 on 31/12/1996.

You are required to prepare:

(*a*) An Income and Expenditure/Profit and Loss Account for the year ended 31/12/1996. (35)

(*b*) A Balance Sheet as at 31/12/1996. (25)

(60 marks)

4. Tabular Statement

The financial position of Whelan Ltd. on 1/1/1996 is shown in the following balance sheet:

Balance Sheet as at 1/1/1996

	Cost £	Dep to date £	Net £
Fixed Assets			
Land & buildings	252,000	15,000	237,000
Delivery vans	70,000	28,000	42,000
	322,000	43,000	279,000
Current Assets			
Stock	68,400		
Insurance prepaid	600		
Debtors	53,000	122,000	
Less **Creditors: amount falling due within 1 year**			
Creditors	29,000		
Bank	19,500		
Wages due	2,500	51,000	
Net Current Assets			71,000
			350,000
Financed by:			
Capital and Reserves			
Authorised — 350,000 ordinary shares @ £1 each			
Issued — 250,000 ordinary shares @ £1 each		250,000	
Share premium		25,000	
Profit and loss balance		75,000	350,000
			350,000

The following transactions took place during 1996:

Jan: Whelan Ltd. decided to revalue the land and buildings to £380,000 which includes land now valued at £100,000. The buildings' depreciation charge for the year is to be 2% of book value.

Feb: Whelan Ltd. bought an adjoining business which included buildings £90,000, delivery vans £45,000 and creditors £15,000. The purchase price was discharged by granting the seller 100,000 £1 shares in Whelan Ltd. at a premium of 25p per share.

March: Goods, previously bought for £2,000 by Whelan, were returned. Owing to a delay in returning these goods a credit note was issued showing a deduction of 8% of invoice price as a restocking charge.

May: Received a bank statement on May 31 showing a direct debit of £1,680 to cover fire insurance for the year ended 31/5/1997.

June: An interim dividend of 5p per share was paid.

July: A payment of £600 was received from a debtor whose debt had been previously written off and who now wishes to trade with Whelan Ltd again. This represents 60% of the original debt and the debtor had undertaken to pay the remainder of the debt in January 1997.

Dec: A delivery van, which cost £12,000, was traded-in against a new van costing £20,000. An allowance of £5,500 was made for the old van. Depreciation to date on the old van was £7,200 and the depreciation charge for the year was £17,000.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant asset, liability, capital and reserve accounts and ascertain and show the closing balances on each of these accounts at 31/12/1996.

(60 marks)

SECTION 2 (200 marks)

Answer **ANY TWO** questions.

5. Interpretation of Accounts

The following figures for the two years ended 31/12/1995 and 31/12/1996 have been taken from the books of Wilson Plc, a company engaged in Tourism, whose Authorised Capital is £700,000 made up of 500,000 Ordinary Shares at £1 each and 400,000 8% Preference Shares at 50p each. The firm has issued 400,000 Ordinary Shares and all the Preference Shares.

		1996		**1995**
		£		**£**
Sales		929,000		850,000
Opening Stocks	54,000		48,000	
Purchases	696,000		546,000	
Closing Stocks	(70,000)		(54,000)	
Cost of Sales		680,000		540,000
Gross Profit		249,000		310,000
Total expenses for year		146,000		152,000
Net profit for year		103,000		158,000
Proposed Dividends		45,000		80,000
Retained profit for year		58,000		78,000
Fixed Assets		820,000		660,000
Investments (market value 31/12/96 - £80,000)		100,000		120,000
Current Assets	250,000		260,000	
Trade Creditors	(145,000)		(88,000)	
Proposed Dividends	(45,000)	60,000	(80,000)	92,000
		980,000		872,000
8% Debentures 2005 (secured) (£50,000 issued on 1/1/1996)		200,000		150,000
Capital — Ordinary Shares		400,000		400,000
Capital — Preference Shares		200,000		200,000
Profit and Loss Balance		180,000		122,000
		980,000		872,000
Market price of one Ordinary Share		£1.45		£1.50

(*a*) Calculate the following for ***both years:***

(i) Price Earnings Ratio.

(ii) The Dividend Yield on Ordinary Shares.

(iii) The Interest Cover. (40)

(*b*) Assume that the company wishes to raise further finance by issuing the remaining shares at £1.40 per share. Would you as an ordinary shareholder be prepared to purchase these shares? Outline your reasons for purchasing/not purchasing some shares. Your answer should include all relevant information included in the above figures and references to any other information that you consider necessary. (50)

(*c*) What action would you advise Wilson Plc to take? (10)

(100 marks)

6. Incomplete records

On 1/1/1996 R. Wilkinson purchased a business for £185,000 consisting of the following tangible assets and liabilities: Premises £152,000, Stock £15,600, Debtors £18,000, 3 months Premises Insurance prepaid £840, Trade Creditors £19,200 and Wages due £1,800.

During 1996 Wilkinson did not keep a full set of accounts but was able to supply the following information on 31/12/1996:

Cash Payments:	Lodgements £89,000, General Expenses £27,300, Purchases £45,200
Bank Payments:	Delivery Vans £29,200, Creditors £31,200, Light and Heat £5,600, Interest £1,400, Annual Premises Insurance Premium £3,600, Covenant for Charitable Organisation £2,600, Furniture £15,000.
Bank Lodgements:	Debtors £38,000, Cash £89,000, Dividends £2,500.

Wilkinson took from stock goods to the value of £80 and cash £50 per week for household expenses during the year. Wilkinson borrowed £70,000 on 1/9/1996 part of which was used to purchase an adjoining premises costing £60,000. It was agreed that Wilkinson would pay interest on the last day of each month at the rate of 12% per annum. The capital sum was to be repaid in a lump sum in the year 2005 and to provide for this the bank was to transfer £500 on the last day of each month from Wilkinson's bank account into an investment fund. Wilkinson estimated that one third of furniture, light and heat **used** and one fifth of interest **payable** for the year should be attributed to the private section of the premises.

Included in the assets and liabilities of the firm on 31/12/1996 were Stock £16,700, Debtors £19,500, Trade Creditors £12,800, Cash £400, Electricity due £490 and £55 interest earned by the fund to date.

You are required to show, with workings, the:

(*a*) Trading, Profit and Loss Account for the year ended 31/12/1996. (60)

(*b*) Balance Sheet as at 31/12/1996. (40)

(100 marks)

7. Published Accounts

The following is the trial balance of Wallace Plc as at 31/12/1996:

	Dr. £	Cr. £
Authorised and issued share capital		
Ordinary shares @ £1 each		400,000
6% Preference Shares @£1 each		200,000
Buildings – cost at 1/1/1996	500,000	
Buildings – accumulated depreciation at 1/1/1996		80,000
Fixed asset investments	180,000	
Patents at 1/1/1996	75,000	
Debtors and Creditors	485,000	324,000
8% Debentures 2002/2004		200,000
Stock at 1/1/1996	490,000	
Purchases and Sales	3,900,000	4,960,000
Distribution costs	295,000	
Administration expenses	365,000	
Rental income		44,000
Debenture interest paid	8,000	
Interim dividends	26,000	
Profit on the sale of land		75,000
Bank	55,000	
Profit and loss at 1/1/1996		85,000
VAT	21,000	
Provision for bad debts		18,000
PAYE/PRSI		14,000
	6,400,000	6,400,000

The following additional information is provided:

(i) Stock at 31/12/1996 is £520,000.

(ii) At the end of the year the company re-valued its Buildings at £700,000. The company wishes to incorporate this value in this year's accounts.

(iii) Depreciation is to be provided for as follows:
Buildings — 2% straight line on cost (there were no purchases or sales of buildings during the year). During the year, land, adjacent to the company's premises and which had cost £90,000, was sold for £165,000.

(iv) Provision is to be made for:
Corporation tax £150,000
Debenture interest due at 31/12/1996
Director's remuneration £84,000
Auditor's remuneration £5,500

(v) The patents are being written off over 8 years. This writing off commenced in 1993.

(vi) On 1 July 1996 interim dividends of £20,000 and £6,000 were paid to the ordinary and preference shareholders respectively. The directors propose the payment of the preference dividend due and a final dividend on ordinary shares to bring that total dividend up to 9p per share.

You are required to:

(*a*) Prepare the published profit and loss account for the year ended 31/12/1996 and a balance sheet as at that date in accordance with the Companies Act and appropriate accounting standards showing the following notes:

1. Accounting policy notes for tangible fixed assets and stock.
2. Operating profit.
3. Interest payable.
4. Dividends.
5. Tangible fixed assets. (85)

(*b*) State three items of information that must be included in a director's report. (15)

(100 marks)

SECTION 3 (80 marks)
Answer **ONE** question.

8. Marginal Costing

Winstone Ltd. produces a single product. The company's profit and loss account for the year ended 31/12/1996, during which 40,000 units were produced and sold, was as follows:

	£	£
Sales (40,000 units)		480,000
Materials	140,000	
Direct labour	84,000	
Factory overheads	72,000	
Administration expenses	46,000	
Selling expenses	95,000	437,000
Net profit		43,000

The materials, direct labour and 20% of the factory overheads are variable costs. Apart from the sales commission of £1 per unit, selling and administration expenses are fixed.

You are required to calculate:

(*a*) The company's break-even point and margin of safety in units. (10)

(*b*) The number of units that must be sold in 1997 if the company is to increase its net profit by 20% over the 1996 figure, assuming the selling price and cost levels remain unchanged. (15)

(*c*) The selling price the company must charge in 1997 if fixed costs are increased by 10% but the volume of sales and the profit remain the same. (15)

(*d*) The profit the company would make in 1997 if it reduced its selling price to £11, increased fixed costs by £8,000 and thereby increased the number of units sold by 10%, with all other cost levels remaining unchanged. (20)

(*e*) The number of units that must be sold to provide a profit of 10% of the sales revenue from these units. (20)

(80 marks)

9. Cash Budgeting

The management of Premier Ltd. is currently preparing its budget for the second half of 1997 and has produced the following Sales Forecast:

Month	**£**
July	85,000
August	75,000
September	70,000
October	80,000
November	90,000
December	85,000
January 1998	95,000

You are given the following additional information:

Debtors are expected to settle their accounts as follows:

(i) 20% of sales will be settled in cash in the month of sale at a discount of 5%.

(ii) Of the credit sales, 50% of customers by value will settle their accounts the month following sale. The remainder will be collected in the second month following sale.

The gross profit is expected to be 40% of sales.

The stock of goods at the beginning of each month will be 20% of the sales requirement for that month.

Creditors are paid in the month immediately following delivery.

Monthly expenses, to be paid within the month, are expected to be 15% of sales each month.

You are required to prepare:

(*a*) A schedule of monthly receipts from Debtors for the four month budget period September to December, 1997. (25)

(*b*) A schedule of monthly payments to creditors for the same four month period. (25)

(*c*) A Cash budget for four months September to December 1997, given that the opening cash balance on 1st September is £12,000. (30)

(80 marks)