AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA

LEAVING CERTIFICATE EXAMINATION, 1998

ACCOUNTING — HIGHER LEVEL

(400 marks)

WEDNESDAY 17TH JUNE 1998 — 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. **Company Final Accounts**

Tynan Ltd. has an Authorised Capital of £850,000 divided into 550,000 Ordinary Shares £1 each and 300,000 6% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1997.

	£	£
Land and buildings at cost	700,000	
Accumulated depreciation - Land and buildings		36,000
Delivery vans at cost	180,000	
Accumulated depreciation - Delivery vans		80,000
Patents (incorporating 4 months investment income received)	47,000	
9% Investments	100,000	
Stocks 1/1/1997	45,000	
Purchases and Sales	480,000	770.000
Director's fees	50,000	
Salaries and general expenses	136,000	
Debenture interest paid (1st Jan - 31st March)	3,000	
Debtors and Creditors	69,000	44,000
Provision for bad debts		2,100
Interim dividends for first 3 months	15,000	
Profit and loss balance 1/1/1997		22,000
8% Debentures (including £100,000 8% debentures issued at par on 31/3/1997)		250,000
VAT		14,000
Bank		6,900
Issued capital		
400,000 Ordinary shares at £1 each		400,000
200,000 6% Preference shares of £1 each		200,000
	1,825,000	1,825,000

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

(i) Stock at 31/12/1997 at cost was £40,000 - this figure includes old stock which cost £8,000 but has a net realisable value of 60% of cost.

(ii) Patents, which incorporated 4 months investment income, are to be written off over a 4 year period commencing in 1997.

(iii) The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/1997 has arrived showing an overdraft of £1,980. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. Investment income £3,750 had been paid direct to the firm's bank account.
2. A direct debit to ESB of £900 had not been recorded in the firm's books.
3. A cheque for £750, issued to a supplier, had been entered in the books (cash book and ledger) as £570.
4. A credit transfer of £250 had been paid direct to the firm's bank account on behalf of a bankrupt debtor. This represents a first and final payment of 10p in the £1.
5. A cheque issued for £2,000 to a director had not yet been presented for payment.

(iv) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale.

NOTE: On 31/5/1997 a delivery van, which had cost £45,000 on 1/6/1995, was traded against a new van which cost £57,000. An allowance of £20,000 was made on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.

(v) Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was £150,000). At the end of 1997 the company re-valued the land and buildings at £850,000.

(vi) Provision be made for both investment income and debenture interest due.

(vii) Provision for bad debts be adjusted to 6% of debtors.

(viii) The directors recommend that:

1. The preference dividend due be paid.
2. A final dividend on ordinary shares be provided bringing the total dividend up to 8%.

You are required to prepare a:

(*a*) Trading, Profit and Loss Account for the year ending 31/12/1997. (75)

(*b*) Balance Sheet as at 31/12/1997. (45)

(120 marks)

2. Club Accounts

Included among the assets and liabilities of the Mountainside Tennis Club on 1/1/1997 were the following:

Clubhouse & Courts £320,000, Bar Stock £2,100, Equipment (at cost) £9,200, Life Membership £18,000, Bar Debtors £90, Bar Creditors £1,150, Subscriptions prepaid £600, 6% Government Investments £15,000, Investment interest due £225, Levy Reserve Fund £20,000, and Wages due £500.

The Club Treasurer has supplied the following account of the Club's activities during the year ended 31/12/1997:

Receipts	**£**	**Payments**	**£**
Bank Current Account	2,330	Bar Purchases	59,500
Interest from investments	825	Sundry Expenses	80,620
Entrance fees	3,000	Catering Costs	1,080
Catering Receipts	2,650	Equipment	2,800
Annual Sponsorship	14,700	Coaching lessons	1,750
Subscriptions	54,600	Repayment of £12,000 loan on 31/12/1997	
Bar Receipts	88,400	together with $1^1/_4$ years' interest	13,500
		Balance	7,255
	166,505		166,505

You are given the following additional information and instructions:

1. Bar stock on 31/12/1997 was £2,200.
2. Equipment owned on 31/12/1997 is to be depreciated at the rate of 20% of cost.
3. Clubhouse and courts to be depreciated by 2%.
4. Bar debtors and bar creditors on 31/12/1997 were £70 and £1,340 respectively.
5. Subscriptions include:

   2 life memberships of £3,000.
   Subscriptions for 1998 amounting to £1,200.
   Levy for 1997 of £100 each on 200 members.
   Levy of £100 on 10 members for 1996.

6. Life membership was to be written off over a ten year period commencing in 1997.

You are required to:

(*a*) Show the club's Accumulated Fund (Capital) on 1/1/1997. (25)

(*b*) Show the Income and Expenditure Account for the year ending 31/12/1997. (25)

(c) Indicate the points you, as treasurer, would make if the members at the AGM proposed to reduce the subscription rate by 10%. (10)

(60 marks)

3. Creditors Control Account

The Creditors Ledger Control Account of H. Turner showed the following balances - £36,411cr and £545dr on 31/12/1997.

These figures did not agree with the Schedule (List) of Creditors Balances extracted on the same date.

An examination of the books revealed the following:

(i) A creditor had charged Turner interest amounting to £45 on an overdue account. The only entry in the books for this interest had been £54 debited to the creditor's account. After a protest this interest was reduced to £15 but this reduction had not been reflected in the accounts.

(ii) Cash purchases by Turner of £400 had been debited to a supplier's account.

(iii) Turner had received an invoice from a supplier for £770. This had been entered in the appropriate day book as £707. However when posting from this book to the ledger no entry had been made in the personal account.

(iv) A credit note was received from a supplier for £133. The only entry made in the books was £33 debited to a *debtor's* account.

(v) Discount disallowed £20 by a supplier had been omitted from the books.

(vi) Turner had returned goods £300 to a supplier and entered this correctly in the books. However a credit note arrived showing a deduction of 10% for a restocking charge. The total amount of this credit note was credited to the creditor's account. In relation to the credit note no *other* entry was made in the books.

You are required to prepare the:

(*a*) Adjusted Creditors Ledger Control Account (30)

(*b*) Adjusted Schedule of Creditors showing the original balance (30)

(60 marks)

4. Revaluation of Fixed Assets

On 1 January 1985 Trident Ltd. purchased property for £250,000, consisting of Land £50,000 and Buildings £200,000. The company depreciates buildings at the rate of 2% using the straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and nil depreciation in the year of disposal.

The following details were taken from the firm's books:

Jan 1 1993	Revalued property at £480,000. Of this revaluation £120,000 was attributable to land.
Jan 1 1994	Sold for £140,000 land which cost £50,000 but was since revalued on January 1 1993.
Jan 1 1995	Purchased buildings for £150,000. During 1995, £30,000 was paid to a building contractor for an extension to these buildings. The company's own employees also worked on the extension and they were paid wages amounting to £20,000 by Trident Ltd. for this work.
Jan 1 1996	Revalued buildings owned at £700,000 (a 25% increase in respect of each building).
Jan 1 1997	Sold for £510,000 the buildings purchased on 1/1/1985. The remaining buildings were revalued at £300,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the 5 years ended 31 December 1993 to 31 December 1997. (Bank Account and Profit and Loss not required).

(60 marks)

SECTION 2 (200 marks)

Answer **ANY TWO** questions.

5. Interpretation of Accounts

The following figures for the year ended 31/12/1997 have been taken from the Final Accounts of Lift Plc. and Drop Plc., companies engaged in the same sector.

	Lift		Drop	
	£	£	£	£
Sales		920,000		780,000
Opening Stocks	90,000		62,000	
Purchases	720,000		528,000	
Closing Stocks	(100,000)		(50,000)	
Cost of Sales		710,000		540,000
Gross Profit		210,000		240,000
Total expenses for year		162,000		150,000
		48,000		90,000
Proposed Dividends		30,000		40,000
Profit and Loss Balance 1/1/1997		12,000		30,000
Fixed Assets		650,000		450,000
Investments (market value £250,000)		200,000		—
Current Assets	345,000		260,000	
Creditors: amounts falling due within 1 year	215,000		120,000	
		130,000		140,000
		980,000		590,000
8% Debentures 2005 (secured)		200,000		100,000
Issued Capital - Ordinary shares at £1 each		550,000		310,000
- 8% Preference shares at 50p each		200,000		100,000
Profit and Loss Balance		30,000		80,000
		980,000		590,000
Market value of one Ordinary Share		£1.10		£2.60

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

(i) How long it would take one ordinary share to recoup (recover) its value at present pay-out rate.

(ii) The Dividend Yield.

(iii) The Price Earnings Ratio.

(iv) The Interest Cover. (40)

(*b*) Which ordinary shareholders would be the more satisfied with the policies and state of affairs of their company? Use available relevant information to support your answer. (45)

(*c*) The gross profit percentage of Lift Plc. for the previous two years was 30%. Give five possible reasons for the difference in 1997. (15)

(100 marks)

[OVER→

6. Correction of errors and suspense account

The Trial Balance of J. Tobin, a garage owner, failed to agree on 31/12/1997. The difference was entered in a Suspense Account and the following Balance Sheet was prepared:

Balance Sheet as at 31/12/1997

	£	£	£
Fixed Assets			
Premises		180,000	
Equipment		66,000	246,000
Current Assets			
Stock (including suspense)		87,000	
Debtors		61,000	
		148,000	
Less **Current Liabilities**			
Creditors	79,000		
Bank	35,000	114,000	34,000
			280,000
Financed by:			
Capital		240,000	
Add: Net Profit		52,000	
		292,000	
Less: Drawings		12,000	280,000
			280,000

On checking the books, the following errors were discovered:

(i) A private debt for £965, owed by Tobin, had been offset in full against a business debt of £1,000, owed to the firm for work previously carried out. No entry had been made in the books in respect of this offset.

(ii) Tobin had won a private holiday prize for two, worth £6,000. One ticket had been given to a salesperson as part payment of sales commission for the year, and the other to an advertising firm as payment in full of a debt of £3,400. No entry had been made in the books.

(iii) Tobin had returned a motor car, previously purchased on credit from a supplier for £9,800 and had entered this transaction in the relevant accounts incorrectly as £8,900. However, a credit note subsequently arrived from the supplier showing a transport charge of £200 to cover the cost of the return. The only entry made in respect of this credit note was a credit of £9,600 in the creditor's account.

(iv) Car parts, previously sold on credit for £550, had been returned to Tobin. These goods had been incorrectly entered as £50 on the credit of the Equipment account and as £55 on the debit of the Purchases account.

(v) A motor car, purchased on credit from J. Boyle for £12,000, had been entered on the incorrect side of Boyle's account and credited as £1,200 in the Equipment account.

You are required to:

(*a*)	Journalise the necessary corrections	(55)
(*b*)	Show the Suspense Account	(10)
(*c*)	Prepare a Statement showing the correct net profit	(15)
(*d*)	Prepare a corrected Balance Sheet	(20)

(100 marks)

7. Cash Flow Statement

The following are the Balance sheets of Experience Plc. as at 31/12/1996 and 31/12/1997.

Balance Sheets as at	**31/12/1997**		**31/12/1996**	
Fixed Assets	**£**	**£**	**£**	**£**
Cost	500,000		480,000	
Less Accumulated depreciation	(120,000)	380,000	(110,000)	370,000
Current Assets				
Stock	369,000		310,000	
Debtors	181,000		118,000	
	550,000		428,000	
Less **Creditors:** amounts falling due within 1 year:				
Trade Creditors	170,000		190,000	
Bank	10,000		34,000	
Taxation	38,000		29,000	
Dividends	52,000		65,000	
	(270,000)		(318,000)	
Net Current Assets		280,000		110,000
		660,000		480,000
Financed by				
Creditors: amounts falling due after more than 1 year:				
10% Debentures		150,000		100,000
Capital and Reserves				
£1 Ordinary Shares		260,000		200,000
Share premium		12,000		—
Profit & Loss Account		238,000		180,000
		660,000		480,000

The following information is also available:

(i) 60,000 shares were issued at £1.20 per share.

(ii) Fixed assets, which cost £50,000 and on which total depreciation of £25,000 had been provided, were sold for £30,000.

(iii) £50,000 debentures were issued on 1/1/1997.

(iv) Dividends due and taxation due on 31/12/1996 were paid.

You are required to:

(*a*) Prepare an abridged Profit and Loss account to ascertain the operating profit for the year ending 31/12/1997. (25)

(*b*) Reconcile the operating profit to net cash inflow from operating activities. (25)

(*c*) Prepare the cash flow statement for Experience Plc. for the year ended 31/12/1997. (35)

(*d*) Explain why cash flow statements are prepared. (15)

(100 marks)

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

8. Product Costing

The following are the specifications for a job quotation received from Woodworth Ltd:

Material costs 30 rolls @ £70 per roll

Department	**Hours**
1	75
2	150
3	24

The monthly budgeted overheads are as follows:

Department	**Variable** £	**Fixed** £
1	9,600	3,300
2	12,600	2,100
3	4,400	900

Budgeted hours for the month are:

Department	
1	600
2	1,400
3	400

The wage rate for Department 1 is £9 per hour, Department 2 is £8 per hour and Department 3 is £10 per hour. General administration overheads are expected to be £6,000 for the month.

You are required to:

(*a*) Calculate the variable and fixed overhead absorption rates for each department in direct labour hours.
(*b*) Calculate the administration overhead absorption rate in direct labour hours.
(*c*) Calculate the selling price of the job if the profit is set at 20% of selling price.
(*d*) Give two reasons for product costing and explain each.

(80 marks)

9. Budgeting

O'Toole Ltd. has recently completed its sales forecasts for the year to 31 December 1998. It expects to sell two products - Basic at £180 and Luxury at £220.

	Basic	**Luxury**
Sales demand is expected to be	5,000 units	4,000 units

Both products uses the same raw materials and skilled labour but in different quantities per unit.

	Basic	**Luxury**
Material R	5 kgs	4 kgs
Material S	6 kgs	7 kgs
Skilled Labour	8 hours	9 hours

The expected prices for raw materials during 1998 are:

Material R	£3 per kg
Material S	£4 per kg

The skilled labour rate is expected to be £10.00 per hour.

Stocks of raw materials on 1 January 1998 are expected to be

Material R	6000 kgs @ £2.50 per kg
Material S	5000 kgs @ £3.50 per kg

Stocks of finished goods on 1 January 1998 are expected to be:

Basic	400 units @ £140.00 each
Luxury	300 units @ £160.00 each

All stocks are to be reduced by 20% from their opening levels by the end of 1998 and are valued using the FIFO method.

Production overhead costs are expected to be:

Variable	£4.00 per skilled labour hour
Fixed	£140,000 per annum

You are required to prepare, for the year to 31/12/1998, O'Toole Ltd's:

(*a*) Production Budget (in units).
(*b*) Raw Material Purchases Budget (in units and £).
(*c*) Production Cost/Manufacturing Budget.
(*d*) Budgeted Trading Account (if the budgeted cost of a unit of Basic and Luxury is £166 and £183 respectively).

(80 marks)