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LEAVING CERTIFICATE EXAMINATION, 1999

ACCOUNTING — HIGHER LEVEL

(400 marks)

TUESDAY 15TH JUNE 1999 – AFTERNOON 2.00 p.m. to 5.00 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.

1. Sole Trader - Final Accounts

The following trial balance was extracted from the books of James Stewart on 31/12/1998.

	£	£
Buildings (cost £656,250)	485,000	
Delivery vans (cost £90,000)	55,000	
12% Investments 1/6/1998	150,000	
9% Fixed Mortgage (including increase of £40,000 9% mortgage received on 1/4/1998)		200,000
Patents (incorporating 4 months investment income received)	50,500	
Debtors and Creditors	45,400	64,400
Purchases and Sales	495,000	774,000
Stocks 1/1/1998	47,600	
Commission	20,000	
Provision for Bad Debts		2,200
Salaries and General Expenses	96,100	
Discount (net)		2,700
Rent		8,800
Mortgage Interest paid for first 3 months	4,500	
Insurance (incorporating suspense)	7,200	
VAT		6,700
PRSI		1,800
Bank		74,900
Drawings	29,200	
Capital		350,000
	1,485,500	1,485,500

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

(i) Stock at 31/12/1998 at cost was £46,900. This figure includes damaged stock which cost £3,900 but which now has a net realisable value of £2,400.

(ii) Provide for depreciation on vans at the annual rate of 15% of cost from the date of purchase to the date of sale.

NOTE: On 31/3/1998 a delivery van, which had cost £16,000 on 31/5/1994, was traded against a new van which cost £20,000. An allowance of £7,000 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.

(iii) Patents, which incorporates 4 months investment income, is to be written off over a 5 year period commencing in 1998.

(iv) No record had been made in the books for "goods in transit" on 31/12/1998. The invoice for these goods had been received showing the recommended retail selling price of £12,500, which is cost plus 25%.

(v) The suspense figure arises as a result of the posting of an incorrect figure for mortgage interest in the mortgage interest account and discount received £400 entered only in the creditors account. The correct interest was entered in the bank account.

(vi) Provision to be made for mortgage interest due.

(vii) A new warehouse was purchased during the year for £50,000 plus VAT 12.5%. The amount paid to the vendor was entered in Buildings account. No entry was made in the VAT account.

(viii) Provide for depreciation on Buildings at the rate of 2% <u>of cost</u> per annum. It was decided to re-value the Buildings at £900,000 on 31/12/1998.

(ix) Provision for Bad Debts to be adjusted to 4% of Debtors.

You are required to prepare a:

(*a*) Trading, profit and loss account for the year ended 31/12/1998 (75)

(*b*) Balance sheet as at 31/12/1998. (45)

(120 marks)

2. Depreciation of Fixed Assets.

Speedo Transport Ltd prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/1997 Speedo Transport Ltd owned the following vehicles:
No 1 purchased on 1/1/1993 for £60,000
No 2 purchased on 1/9/1994 for £68,000
No 3 purchased on 1/3/1995 for £72,000

On 1/4/1997 Vehicle No 3 was crashed and traded in against a new vehicle costing £76,000. The company received compensation to the value of £25,000 and the cheque paid for the new vehicle was £54,000. On 1/8/1997 Vehicle No 1 was traded in for £20,000 against a new vehicle costing £78,000. Vehicle No. 1 had a refrigeration unit fitted on 1/1/1995 costing £15,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% pa of cost.

You are required to show, with workings, for each of the two years 1997 and 1998:

(*a*) The Vehicles Account (8)

(*b*) The Provision for Depreciation Account (36)

(*c*) The Vehicles Disposal Account. (16)

(60 marks)

3. Farm Accounts

Among the assets and liabilities of Mary and Peter Sutton, who carry on a mixed farming business on 1/1/1998, are: Land and Buildings at cost £280,000; Machinery at cost £50,000; Electricity due £350; Milk cheque due £2,200; Value of Cattle £56,000; Value of Sheep £17,000; Stock of Fuel £700.

The following is a summary taken from their cheque payments and lodgement book for the year ended 31/12/1998.

Lodgements	**£**	**Cheque payments:**	**£**
Balance	2,500	Fertiliser	2,900
Milk	27,000	Sheep	18,000
Sheep	21,000	Dairy wages	1,700
Cattle	11,000	Cattle	15,000
Lambs	12,400	General farm expenses	14,800
Calves	5,800	Light heat and fuel	3,350
Ewe premium	3,800	Drawings	7,700
Wool	1,400	Repairs	6,100
Beef premium	2,300	Veterinary fees and medicines	1,650
Forestry premium	1,800	ACC Loan and 15 months interest at 8% per annum on 31/3/1998	16,500
Six months interest from 8% investment	800	Balance	2,100
	89,800		89,800

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

		Cattle	Sheep
(i)	Value of Livestock on 31/12/98 was	£57,000	£19,000

(ii) Farm produce used by family during year - Milk £660; Lamb £250.

(iii) General farm expenses, fertiliser and veterinary fees are to be apportioned 60% to "Cattle and Milk" and 40% to "Sheep"

(iv) Other expenses are to be apportioned 80% to farm and 20% to household

(v) Depreciation to be provided on Machinery at the rate of 20% of cost per annum.

(vi) Veterinary fees and medicines includes a cheque to VHI for £600.

(vii) On 31/12/1998 Milk cheque due £1,950; Creditors for fertilisers amounted to £300 and Stock of Fuel £550.

You are required to prepare:

(*a*) A Statement of Capital for the farm on 1/1/1998. (25)

(*b*) An Enterprise Analysis Account for "Cattle and Milk" and "Sheep" for the year ended 31/12/1998. (20)

(*c*) A general Profit and Loss account for the year ended 31/12/1998 (15)

(60 marks)

4. Cash Flow Statement

The following are the balance sheets of Solitude Plc as at 31/12/1997 and 31/12/1998 together with an abridged profit and loss account for the year ended 31/12/1998

Abridged Profit and Loss Account for the year ended 31/12/1998

	£	£
Operating profit		313,000
Interest paid		(9,000)
Profit before taxation		304,000
Taxation		(134,000)
Profit after taxation		170,000
Dividends - Interim	30,000	
- Proposed	50,000	(80,000)
Retained profits for the year		90,000
Retained profits on 1/1/1998		185,000
Retained profits on 31/12/1998		275,000

Balance Sheets as at	**31/12/1998**		**31/12/1997**	
	£	£	£	£
Fixed Assets				
Land and buildings	500,000		550,000	
Less accumulated depreciation	(100,000)	400,000	(105,000)	445,000
Machinery at cost	360,000		280,000	
Less accumulated depreciation	(184,000)	176,000	(112,000)	168,000
		576,000		613,000
Financial Assets				
Quoted Investments		100,000		40,000
Current Assets				
Stock	335,000		205,000	
Debtors	280,000		295,000	
Bank	59,000		12,000	
	674,000		512,000	
Less Creditors: amounts falling due within 1 year				
Trade Creditors	206,000		222,000	
Taxation	134,000		113,000	
Dividends	50,000		45,000	
	(390,000)		(380,000)	
Net Current Assets		284,000		132,000
		960,000		785,000
Financed by:				
Creditors: amounts falling due after more than 1 year				
10% Debentures		80,000		120,000
Capital and Reserves				
£1 Ordinary shares		580,000		480,000
Share premium		25,000		
Profit and loss account		275,000		185,000
		960,000		785,000

The following information is also available.

1 There were no disposals of machinery during the year but new machines were acquired.

2 There were no additions to buildings during the year. Buildings were disposed of for £55,000.

3 Depreciation charged for the year on Buildings in arriving at the operating profit was £10,000,

You are required to:

(*a*) Reconcile the operating profit to net cash inflow from operating activities (20)

(*b*) Prepare the cash flow statement of Solitude Plc for the year ended 31/12/1998. (40)

(60 marks)

SECTION 2 (200 marks)

Answer **ANY TWO** questions.

5. Interpretation of Accounts

The following are the actual figures for the year ended 31/12/1998 and the projected figures for the year ended 31/12/1999 of Star Plc whose Authorised Capital is £900,000, made up of 700,000 Ordinary Shares at £1 each and 400,000 8% Preference Shares at £0.50 each. The firm has already issued 350,000 Ordinary Shares and all the Preference Shares. Star plc operates in the leisure industry.

	1998		Projected	
	£	£	£	£
Sales		850,000		990,000
Opening Stocks	55,000		60,000	
Closing Stocks	60,000		62,000	
Cost of Sales		625,000		720,000
Gross Profit		225,000		270,000
Total operating expenses for year		155,000		161,000
		70,000		109,000
Interest		(24,000)		(24,000)
Dividends		(35,000)		(40,000)
Retained profits		11,000		45,000
Profit and Loss Balance 1/1		48,000		59,000
Profit and Loss Balance 13/12		59,000		104,000

	£	£
Fixed Assets	700,000	700,000
Investments (market value 31/12/98 – £200,000)	160,000	160,000
Current Assets	226,000	229,000
Trade Creditors	(142,000)	(95,000)
Proposed Dividends	(35,000)	(40,000)
	909,000	954,000
8% Debentures 2006 (secured)	300,000	300,000
Ordinary Shares	350,000	350,000
Preference Shares	200,000	200,000
Market Value of One Ordinary Share	£1.20	£1.30

You are required to:

(a) Calculate the following for 1998 and projected for 1999.

(1) The period of credit received from trade creditors.

(2) The Interest cover.

(3) The Dividend yield.

(4) How long it would take one ordinary share to recoup (recover) its value at present pay-out rate. (45)

(b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company? Use relevant ratios and other information to support your answer. (35)

(c) Advise the bank manager as to whether a loan of £100,000 should be ganted to Star plc for further expansion. Use appropriate ratios and other information to support your answer. (20)

(100 marks)

6. Published Accounts

The following is the trial balance of Solan Plc as at 31/12/1998:

	Dr £	Cr £
Fixed asset investments	400,000	
Patent at 1/1/1998	140,000	
Building - cost at 1/1/1998	600,000	
Building accumulated depreciation at 1/1/1998		48,000
Stock at 1/1/1998	700,000	
Debtors and Creditors	167,000	224,000
8% Debentures 2003/2004		300,000
Purchases and Sales	6,100,000	7,840,000
Distribution costs	530,000	
Administration expenses	712,000	
Rental income		48,000
Debenture interest paid	12,000	
Interim dividends	20,000	
Profit on the sale of land		75,000
Bank	19,000	
Authorised and issued share capital		
Ordinary shares @ £1 each		350,000
6% Preference shares @ £1 each		200,000
Profit and loss at 1/1/1998		210,000
Provision for bad debts		23,000
VAT		82,000
	9,400,000	9,400,000

The following additional information is provided:

(i) Stock at 31/12/1998 is £740,000

(ii) Depreciation is to be provided for as follows:
Building 2% straight line (There were no purchases or sales of buildings during the year). During the year land adjacent to the company's premises which had cost £45,000 was sold for £120,000. At the end of the year the company re-valued its building at £750,000. The company wishes to incorporate this value in this year's accounts.

(iii) Provision is to be made for:
Directors' remuneration £60,000
Auditors' remuneration £8,500
Corporation tax £220,000
Debenture interest due at 31/12/1998

(iv) The patent was acquired on 1/1/1995 for £200,000. It is being amortised over 10 years in equal instalments. The amortisation should be included in cost of sales.

(v) On 1 July 1998 interim dividends of £14,000 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 of 6p per share.

(vi) The fixed asset investments are in listed companies. The market value of these investments at 31/12/1998 was £450,000. There were no purchases or sales of investments during the year.

(vii) The debentures are secured by a fixed charge over the company's tangible fixed assets.

You are required to:

(*a*) Prepare the published profit and loss account for the year ended 31/12/1998 and a balance sheet as at that date in accordance with the Companies Acts and latest accounting standards showing the following notes:
1 Accounting policy note for tangible fixed assets and stock
2. Operating profit
3. Interest payable
4. Dividends
5. Tangible fixed assets (85)

(*b*) State the criteria that determine the size of a public and large private company (15)

(100 marks)

7. Tabular Statement

The financial position of Sadler Ltd on 1/1/1998 is shown in the following balance sheet:

Balance sheet as at 1/1/1998

	Cost	Dep to date	Net
Fixed Assets	£	£	£
Land & buildings	250,000	20,000	230,000
Equipment	40,000	15,000	25,000
	290,000	35,000	255,000
Current Assets			
Stock		65,000	
Debtors (Less provision 5%)		76,000	
		141,000	
Less Creditors: amount falling due within 1 year			
Creditors	59,000		
Bank	21,000		
Expenses due	2,000	82,000	
Net Current Assets			59,000
			314,000
Financed by:			
Capital and Reserves			
Authorised - 400,000 ordinary shares @ £1 each			
Issued - 280,000 ordinary shares @ £1 each			280,000
Share premium			12,000
Profit and loss balance			22,000
			314,000

The following transactions took place during 1998:

Jan — Sadler Ltd bought an adjoining business which included buildings £110,000, debtors £15,000 and creditors £35,000. The purchase price was discharged by granting the seller 80,000 shares in Sadler Ltd at a premium 25p per share.

Feb — Sadler Ltd decided to re-value the land and buildings at £500,000 which includes land valued at £50,000 on 28/2/1998.

March — A payment of £900 was received from a debtor whose debt had been previously written off and who now wishes to trade with Sadler Ltd again. This represents 60% of the original debt and the debtor had undertaken to pay the remainder of the debt by December 1998.

April — Goods previously sold for £720 were returned. The selling price of these goods was cost plus 20%. Owing to the delay in returning these goods a credit note was issued showing a deduction of 10% of selling price as a restocking charge.

May — Received a bank statement on May 31 showing a direct debit of £1,800 to cover van insurance for year ended 31/3/1999 and a credit transfer received of £3,600 representing 9 months rent in advance from May 1.

June — A creditor who was owed £400 by Sadler Ltd accepted equipment, the book value of which was £300, in full settlement of the debt. This equipment had cost £800.

July — An interim dividend of 6p per share was paid

Oct — Received £50,000 from the issue of the remaining shares.

Nov — Received balance of previously written off bad debt as agreed in March.

Dec — The buildings are to be depreciated at the rate of 2% per annum of value at 28/2/1998.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/1998.

(100 marks)

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

8. Marginal Costing

Samson Ltd produces a single product, a toolbox. The company's profit and loss account for the year ended 31/12/1998, during which 80,000 units were produced and sold, was as follows:

	£	£
Sales (80,000 units)		880,000
Materials	280,000	
Direct labour	140,000	
Factory overheads	80,000	
Administration expenses	104,000	
Selling expenses	146,000	750,000
Net profit		130,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from the sales commission of 5% of sales, selling and administration expenses are fixed.

You are required to calculate:

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

(*b*) The number of units that must be sold in 1999 if the company is to increase its net profit by 20% over the 1998 figure assuming the selling price and cost levels and percentages remain unchanged.

(*c*) The profit the company would make in 1999 if it reduced its selling price to £10, increased fixed costs by £6,000 and thereby increased the number of units sold to 90,000, with all other cost levels and percentages remaining unchanged.

(*d*) The selling price the company must charge per unit in 1999, if fixed costs are increased by 10% but the volume of sales and the profit remain the same.

(*e*) The number of units that must be sold at £11 per unit to provide a profit of 10% of the sales revenue received from these same units.

(80 marks)

9. Flexible Budgeting

Sullivan Plc manufactures a component for the motor industry. The following flexible budgets have already been prepared for 50%, 60% and 75% of the plant's capacity.

Output levels	**50%**	**60%**	**75%**
Units	5,000	6,000	7,500
	£	**£**	**£**
Direct materials	55,000	66,000	82,500
Direct wages	35,000	42,000	52,500
Production overheads	39,000	44,000	51,500
Other overhead costs	12,000	14,000	17,000
Administration expenses	20,000	20,000	20,000
	161,000	186,000	223,500

Profit is budgeted to be 25% of sales.

You are required to:

(*a*) Classify the above costs into fixed, variable and mixed costs.

(*b*) Separate production overheads into fixed and variable elements.

(*c*) Separate other overhead costs into fixed and variable elements.

(*d*) Prepare a flexible budget for 90% activity level.

(*e*) Restate the budget, using marginal costing principles and show the contribution.

(*f*) Indicate why a flexible budget is prepared and what it shows.

(80 marks)