AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA

LEAVING CERTIFICATE EXAMINATION, 2000

ACCOUNTING — HIGHER LEVEL

(400 marks)

TUESDAY 13TH JUNE 2000 — 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.

SECTION 1 (120 marks)

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

1. Company - Final Accounts

Robinson Ltd. has an Authorised Capital of £960,000 divided into 600,000 Ordinary Shares at £1 each and 360,000 8% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1999.

	£	£
Land and Building at cost	840,000	
Accumulated depreciation — Land and buildings		42,000
Delivery vans at cost	273,000	
Accumulated depreciation — Delivery vans		70,000
Patents (incorporating 3 months investment income)	57,500	
8% Investments 1/4/1999	125,000	
Stocks 1/1/1999	54,000	
Purchases and Sales	520,000	860,000
Directors' fees	40,000	
Salaries and General Expenses	145,000	
Debenture interest paid for first 3 months	5,000	
Debtors and Creditors	61,000	54,000
Provision for Bad Debts		2,700
Interim dividends for first 3 months	25,000	
Profit and loss balance 1/1/1999		82,000
8% Debentures (including 100,000 8% debentures issued at par on 31/3/1999)		350,000
VAT		18,000
Bank		16,800
Issued capital		
400,000 Ordinary shares at £1 each		400,000
250,000 8% Preference shares		250,000
	2,145,500	2,145,500

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

(i) Stock at 31/12/1999 at cost was £57,000 — this figure includes old stock which cost £10,000 but has a net realisable value of 60% of cost.

(ii) Patents, which incorporated 3 months investment income, are to be written off over a 4 year period commencing in 1999.

(iii) The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/99 has arrived showing an overdraft of £10,630. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. Investment income £2,500 had been paid direct to the firm's bank account.
2. A direct debit to ESB of £750 had not been recorded in the firm's books.
3. A cheque for £860, issued to a supplier, had been entered in the books **(cash book and ledger)** as £680.
4. A credit transfer of £600 had been paid direct to the firm's bank account on behalf of a bankrupt debtor. This represents a first and final payment of 30p in the £1.
5. A cheque issued for £4,000 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 31/5/1999 a delivery van which had cost £54,000 on 1/6/1997, was traded in against a new van which cost £72,000. An allowance of £30,000 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 £140,000). At the end of 1999 the company re-valued the land and buildings at £960,000.

(vi) 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 9%.
3. Provision be made for both investment income and debenture interest due.
4. Provision for bad debts be adjusted to 5% of debtors.

You are required to prepare:

(*a*) A Trading and Profit and Loss account for the year ended 31/12/1999 (75)

(*b*) A Balance sheet as at 31/12/1999. (45)

(120 marks)

2. Service Firm

Included among the assets and liabilities of J. Reidy, a medical practitioner, on 1/1/1999 were;

Surgery £120,000; Equipment £25,000; Motor car £24,000; Creditors for medical supplies £1,200; Stock of medical supplies £2,200; 6% Investment £100,000; Owed from medical card scheme £7,600, 7% Fixed Mortgage £90,000, Capital £165,600.

The following is the Receipts and Payments account for the year ended 31/12/1999:

Receipts & Payments Account of J. Reidy for year ended 31/12/1999.

		£			£
Jan. 1	Balance	2,400		Medical supplies	8,000
	Sale of equipment (cost £12,000)	5,000		Light and heat	3,300
	Medical Insurance Scheme	22,700		Telephone and postage	2,900
	Receipts from private patients	62,000		Wages of receptionist	8,800
	Investment income	4,800		Interest on fixed mortgage	5,775
				Car expenses	5,300
				Insurance	2,400
				Sponsorship of prize at local sports	800
				Investment bonds 31/12/1999	35,000
				Drawings	20,800
			Dec. 31	Balance	3,825
		96,900			96,900

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

(i) Stock of medical supplies on 31/12/1999 was £2,350.

(ii) The closing figure for bank does not take into account bank charges £70 and a dishonoured cheque £150 received from a private patient and lodged in late December.

(iii) The closing figure for cash drawings includes wages £1,200 for 2 weeks paid to a substitute doctor and you are required to provide a further week's wages due.

(iv) 75% of light and heat and telephone and postage relate to the medical practice and the remainder is private.

(v) Depreciate fixed assets on 31/12/1999 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 by 31/12/1998. There is nil depreciation on disposed equipment in year of disposal.

(vi) Fees due from medical cards scheme and private patients respectively are £8,400 and £250 on 31/12/1999.

You are required to prepare:

(*a*) An Income and Expenditure/Profit and Loss Account for the year ended 31/12/1999. (35)

(*b*) A Balance Sheet as at 31/12/1999. (25)

(60 marks)

3. **Published accounts**

North Plc. has an Authorised Capital of £850,000 divided into 650,000 Ordinary Shares at £1 each and 200,000 6% Preference shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1999;

	£	£
Land and building (re-valued at 1/7/1999)	800,000	
Revaluation reserve		260,000
Delivery vans at cost	180,000	
Delivery vans — accumulated depreciation on 1/1/1999		70,000
Patent	20,000	
8% Investments 1/1/1999	120,000	
Debtors and Creditors	47,000	68,000
Purchases and Sales	605,000	895,000
Stocks 1/1/1999	41,000	
Directors' Fees	60,000	
Salaries and General Expenses	122,000	
Discount		3,250
Advertising	16,000	
Investment Income		7,200
Profit on sale of land		80,000
Rent	22,000	
Interim dividends for first 6 months	24,000	
Profit and Loss Balance 1/1/1999		62,700
8% Debentures (2008/2009) including £60,000 debentures issued on 1/8/1999		160,000
Bank		43,150
VAT		7,700
Issued Capital		
300,000 Ordinary shares at £1 each		300,000
100,000 6% Preference Shares		100,000
	2,057,000	2,057,000

The following information is also relevant:

(i) Stock 31/12/1999 was valued on a first in first out basis at £44,000.

(ii) The patent was acquired on 1/1/1997 for £28,000. It is being amortised over 7 years in equal instalments. The amortisation should be included in cost of sales.

(iii) On 1/7/1999 the ordinary shareholders received an interim dividend of £21,000 and the preference shareholders received £3,000. The directors propose the payment of the preference dividend due and a final dividend on ordinary shares of 3p per share.

(iv) On 1/7/1999 land, which had cost £60,000, was sold for £140,000. On this date, the remaining land and buildings were re-valued at £800,000. Included in this revaluation is land now valued at £150,000 but which originally cost £50,000. The re-valued buildings had cost £500,000.

(v) Depreciation is to be provided as follows:

Delivery vans at the rate of 20% of cost.

Buildings at the rate of 2% of cost until date of revaluation and thereafter at 2% of re-valued figure.

(vi) Provide for debenture interest due, investment income due, auditors fees £5,500 and taxation £25,000.

You are required to:

(*a*) Prepare the published profit and loss account for the year ended 31/12/1999 in accordance with the Companies Act and appropriate accounting standards showing the following notes:

1. Accounting policy note for stock and depreciation
2. Dividends
3. Interest payable
4. Operating profit
5. Profit on sale of property. (45)

(*b*) What is an audit? What is the purpose of an audit? (15)

(60 marks)

4. Creditors Control Account

The Creditors Ledger Control Account of B. Ryan showed the following balances – £41,228 cr and £466 dr on 31/12/1999. 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 Ryan interest amounting to £74 on an overdue account. The only entry in the books for this interest had been £47 debited to the creditor's account. After a protest, the interest was reduced to £20 but this reduction had not been reflected in the accounts.

(ii) Discount disallowed £18 by a supplier had been omitted from the books.

(iii) A credit note was received from a supplier for £65. The only entry made in the books was £650 credited to the supplier's personal account.

(iv) Cash purchases by Ryan of £350 had been debited to a supplier's account.

(v) Ryan had received an invoice from a supplier for £660. This had been entered in the appropriate day-book as £606. However, when posting from this book to the ledger, no entry had been made in the personal account.

(vi) Ryan had returned goods £210 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:

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

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

(60 marks)

SECTION 2 (200 marks)

Answer **ANY TWO** questions.

5. Interpretation of Accounts

The following figures for the two years ended 31/12/1998 and 31/12/1999 have been taken from the books of Roach PLC., a company engaged in Tourism, whose Authorised Capital is £800,000 made up of 500,000 Ordinary Shares at £1 each and 600,000 8% Preference shares at £0.50 each. The firm has already issued 350,000 Ordinary shares and all the Preference Shares.

		1999		**1998**
	£	**£**	**£**	**£**
Sales		890,000		780,000
Opening Stocks	48,000		39,000	
Closing Stocks	65,000		48,000	
Cost of Sales		640,000		570,000
Gross Profit		250,000		210,000
Total expenses for year		121,000		103,000
Net profit for year		129,000		107,000
Proposed Dividends		70,000		55,000
Retained profit for year		59,000		52,000
Profit and Loss Balance 1/1		101,000		49,000
Profit and Loss Balance 31/12		160,000		101,000

		£		£
Fixed Assets		750,000		640,000
Investments (market value 31/12/99 – £110,000)		90,000		140,000
Current Assets	290,000		211,000	
Trade Creditors	(100,000)		(85,000)	
Proposed Dividends	(70,000)	120,000	(55,000)	71,000
		960,000		851,000
8% Debentures 2008 (secured)		150,000		100,000
Capital — Ordinary Shares		350,000		350,000
Capital — Preference Shares		300,000		300,000
Profit and loss balance		160,000		101,000
		960,000		851,000
Market Value of One Ordinary Share		£1.60		£1.50
Debenture interest for year		£11,000		£8,000

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

- (i) The Interest Cover
- (ii) The Earnings per Ordinary share
- (iii) How long it would take one ordinary share to recoup its value at present rate of earnings
- (iv) The Dividend Yield on ordinary shares. (50)

(*b*) Assume that the company wishes to raise further finance by issuing the remaining shares at £1.55 per share. Would you as a 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)

(100 marks)

6. Incomplete Records

On 1/1/1999 R. Roberts purchased a business for £210,000 consisting of the following tangible assets and liabilities: Premises £180,000, Stock £16,400, Debtors £14,000, 3 months Premises Insurance prepaid £900, Trade Creditors £20,400 and Wages due £2,400.

During 1999 Roberts did not keep a full set of accounts but was able to supply the following information on 31/12/1999.

Cash payments:	Lodgements £104,000, General Expenses £32,300 Purchases £86,200.
Bank Payments:	Delivery vans £33,200, Creditors £42,200, Light and Heat £6,400, Interest £2,475, Annual Premises Insurance premium £4,800, Covenant for Charitable Organisation £2,000, Furniture £16,000.
Bank Lodgements:	Debtors £35,000, Cash £104,000, Dividends £4,500.

Robert's took from stock goods to the value of £90 and cash £100 per week for household use during the year. Roberts borrowed £90,000 on 1/9/1999 part of which was used to purchase an adjoining premises costing £75,000. It was agreed that Roberts would pay interest on the last day of each month at the rate of 11% per annum. The capital sum was to be repaid in a lump sum in the year 2009 and to provide for this the bank was to transfer £600 on the last day of each month from Robert's bank account into an investment fund. Roberts estimated that 25% of furniture and light and heat **used** as well as 20% 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 31/12/1999 were Stock £18,300, Debtors £22,500, Trade Creditors £34,800, Cash £600, Electricity due £560, and £66 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 31/12/1999. (60)

(*b*) Balance Sheet as at 31/12/1999. (40)

(100 marks)

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7. Correction of errors and suspense account

The Trial Balance of J. Reddington, a garage owner, failed to agree on 31/12/1999. The difference was entered in a Suspense Account and the following Balance Sheet was prepared:

Balance Sheet as at 31/12/1999

	£	£	£
Fixed Assets			
Premises		200,000	
Equipment		58,000	258,000
Current Assets			
Stock (including suspense)		94,000	
Debtors		27,000	
		121,000	
Less Creditors: amounts falling due within 1 year			
Creditors	46,000		
Bank	31,000	77,000	44,000
			302,000
Financed by:			
Capital		266,000	
Add: Net Profit		49,000	
		315,000	
Less: Drawings		13,000	302,000
			302,000

On checking the books, the following errors were discovered:

(i) Reddington had won a private holiday prize for two, worth £5,000 in total. 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 £2,650. No entry had been made in the books.

(ii) A motor car, purchased on credit from J. Arnott for £11,000, had been entered on the incorrect side of Arnott's account and credited as £1,100 in the Equipment account.

(iii) Car parts, previously sold on credit for £230, had been returned to Reddington. These goods had been incorrectly entered as £30 on the credit of the Equipment account and as £23 on the debit of the purchases account.

(iv) A private debt for £1,200, owed by Reddington, had been offset in full against a business debt of £1,380, owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.

(v) Reddington had returned a motor car, previously purchased on credit from a supplier for £10,400, and had entered this transaction in the relevant ledger accounts incorrectly as £10,440. However, a credit note subsequently arrived from the supplier in respect of the return showing a transport charge of £250 to cover the cost of the return. The only entry made in respect of this credit note was a credit of £10,150 in the creditor's 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)

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

8. Stock and Product Costing

(*a*) The following information relates to the purchases and sales (exclusive of VAT) of Rafter Ltd for the year 1999:

Period	Purchases on credit	Credit sales	Cash sales
1/1/1999 to 31/3/1999	3,100 @ £6 each	900 @ £11 each	1,500 @ £12 each
1/4/1999 to 30/6/1999	3,400 @ £7 each	1,100 @ £12 each	1,400 @ £11 each
1/7/1999 to 30/9/1999	3,600 @ £8 each	1,300 @ £12 each	1,400 @ £12 each
1/10/1999 to 31/12/1999	1,600 @ £9 each	1,200 @ £14 each	1,100 @ £14 each

On 1/1/1999 there was an opening stock of 1,500 units @ £6 each.

You are required to:

(*a*) Calculate the closing stock, using first in first out (FIFO) method.

(*b*) Prepare a trading account for the year ended 31/12/1999.

(*b*) Rally Ltd is a small company with three departments. The following are the company's budgeted costs and hourly administration overhead absorption rate for the coming year.

Department	Variable Costs	Fixed Costs	Wage rate per hour
A	£15 per hour	£6.50 per hour	£8
B	£10 per hour	£2.50 per hour	£7
C	£12 per hour	£2.00 per hour	£9

General administration overhead absorption rate per hour is budgeted to be £2.50.

The following are the specifications for a quotation for Job No. 655.

Material costs £3,335

Labour hours required in each department are:

Department	Hours
A	80
B	170
C	40

You are required to:

(*a*) Calculate the selling price of Job No. 655 if the profit is set at 20% of selling price.

(*b*) Give two reasons for product costing and explain each.

(80 marks)

9. Cash Budgeting

J. Rourke had the following Assets and Liabilities at January 1st, 1999:

	£	£
Assets		
Stock	31,500	
Debtors	9,000	
Cash	1,300	
Rates prepaid (3 months)	300	
		42,100
Liabilities		
Capital		42,100

It is expected that sales for the next 7 months will be as follows:

Jan	Feb	March	April	May	June	July
£42,000	£54,000	£50,000	£46,000	£48,000	£50,000	£58,000

(i) 40% of sales are for cash and 60% are on credit, collected one month after sale.

(ii) Gross profit as a percentage of sales is 25%.

(iii) Rourke wishes to keep a cash balance of at least £4,000 at the end of each month.

(iv) All borrowings are in multiples of a thousand pounds and interest is at the rate of 12% per annum.

(v) Purchases each month should be sufficient to cover the following month's sales.

(vi) Purchases are paid for by the end of the month.

(vii) A machine was bought on February 1st for £8,000. (Depreciation 15% per annum on cost).

(viii) Rourke rents the premises for £18,000 per annum payable each month.

(ix) Wages paid amount to £6,200 per month.

(x) A computer was purchased for cash on March 1st for £1,600. (Depreciation 25% per annum on cost).

(xi) Rates paid for 6 months from April 1st – £800 (paid in April).

(xii) One quarter of the money borrowed on 31/1/1999 is to be repaid at the end of June together with interest to date on the repaid amount.

You are required to prepare:

(*a*) Cash budget for six months from January to June.

(*b*) Budgeted Profit and Loss (Pro-Forma income statement) for six months ended 30/6/1999.

(80 marks)