**Coimisiún na Scrúduithe Stáit**
State Examinations Commission

# Leaving Certificate 2012

# Marking Scheme

# Accounting

## Higher Level

# LEAVING CERTIFICATE ACCOUNTING - 2012

## Higher Level Marking Scheme

### INTRODUCTION

The solutions and marking scheme for Accounting Higher Level are attached.

Marks allocated to each line/figure are highlighted and shown in brackets like this alongside. [6]

These marks are then totalled for each section/page and shown in a square like this 40

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is not as per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (e.g. A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

## Question 1

**75**

### Trading and Profit and Loss Account for the year ending 31/12/2011 [1]

| | | € | € | € |
|---|---|---|---|---|
| Sales | | | | 1,444,700 [3] |
| Less Cost of Sales | | | | |
| Stock 01/01/2011 | | | 71,200 [3] | |
| Add Purchases | **W1** | | 1,087,000 [8] | |
| | | | 1,158,200 | |
| Less Stock 31/12/2011 | **W2** | | (78,100) [5] | (1,080,100) |
| Gross Profit | | | | 364,600 |
| **Less Expenses** | | | | |
| **Administration** | | | | |
| Patent written off | **W3** | 5,850 [4] | | |
| Salaries and General expenses | **W4** | 194,950 [7] | | |
| Directors fees | | 40,200 [2] | | |
| Depreciation – Buildings | **W5** | 16,000 [3] | 257,000 | |
| **Selling and Distribution** | | | | |
| Bad debts | **W 14** | 2,100 [3] | | |
| Depreciation –Delivery van | **W6** | 27,950 [4] | | |
| Increase in Provision for Bad Debts | **W7** | 798 [5] | | |
| Loss on sale of van | **W8** | 5,900 [5] | | |
| Loss on insured stock | | 1,000 [3] | | |
| Advertising | **W9** | 800 [4] | 38,548 | (295,548) |
| | | | | 69,052 |
| **Add Operating Income** | | | | |
| Discount | | | | 10,400 [2] |
| Operating profit | | | | 79,452 |
| Investment Income | **W10** | | | 12,000 [3] |
| | | | | 91,452 |
| **Less** Debenture Interest | **W11** | | | (16,200) [3] |
| **Net Profit** | | | | 75,252 |
| Less Appropriation | | | | |
| Dividend paid | | | | (23,300) [2] |
| Retained Profit | | | | 51,952 |
| Profit and Loss Balance 01/01/2011 | | | | (25,100) [2] |
| Profit and Loss Balance 31/12/2011 | | | | 26,852 [3] |

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## Balance Sheet as at 31/12/2011

| | | Cost | Accumulated Depreciation | Net | Total |
|---|---|---|---|---|---|
| **Intangible Fixed Assets** | | € | € | € | € |
| Patents | | | | | 17,550 [3] |
| | | | | | |
| **Tangible Fixed Assets** | | | | | |
| Buildings | **W 5** | 800,000 [2] | 16,000 [1] | 784,000 | |
| Delivery Vans | **W12 & 13** | 286,000 [3] | 91,850 [3] | 194,150 | |
| | | 1,086,000 | 107,850 | 978,150 | 978,150 |
| | | | | | |
| **Financial Assets** | | | | | |
| 9% Investments | | | | | 300,000 [2] |
| | | | | | 1,295,700 |
| | | | | | |
| **Current Assets** | | | | | |
| Stock | | | 78,100 [2] | | |
| Insurance Company | | | 4,000 [3] | | |
| Debtors | **W14** | 94,950 [4] | | | |
| Less provision | | (3,798) [1] | 91,152 | | |
| Advertising prepaid | | | 4,000 [2] | | |
| Investment income due | | | 9,000 [2] | 186,252 | |
| | | | | | |
| **Creditors: Amounts falling due within one year** | | | | | |
| Creditors | **W15** | | 82,020 [3] | | |
| Bank | **W16** | | 32,280 [4] | | |
| Debenture interest due | | | 10,800 [2] | (125,100) | 61,152 |
| | | | | | 1,356,852 |
| | | | | | |
| **Financed by** | | | | | |
| **Creditors: amounts falling due after more than one year** | | | | | |
| 9% Debentures | | | | | 180,000 [2] |
| | | | | | |
| **Capital and Reserves** | | | **Authorised** | **Issued** | |
| Ordinary shares @ €1 each | | | 1,100,000 [1] | 700,000 [1] | |
| 11% Preference shares @ €1 each | | | 500,000 [1] | 400,000 [1] | |
| | | | 1,600,000 | 1,100,000 | |
| | | | | | |
| Capital Reserve | | | | 50,000 [2] | |
| Profit and Loss Balance | | | | 26,852 | 1,176,852 |
| Capital Employed | | | | | 1,356,852 |

**Question 1 workings**

| | | | |
|---|---|---|---|
| 1. | Purchases | 1,140,000 – 5,000 – 48,000 | 1,087,000 |
| 2. | Closing stock | 81,200 – 3,100 | 78,100 |
| 3. | Patent | (20,400 + 3,000) * 4 | 5,850 |
| 4. | Salaries and general expenses | 194,300 + 650 [450 + 200] | 194,950 |
| 5. | Depreciation Buildings | 2% x 800,000 | 16,000 |
| 6. | Depreciation Delivery van | 6,500 + 21,450<br>26,000 + 1,950<br>23,200 + 700 + 4,050<br>5,800 + 700 + 21,450 | 27,950 |
| 7. | Provision for bad debts | 3,798 – 3,000 | 798 |
| 8. | Loss on sale of van | 28,000 – 6,000 – 16,100 | 5,900 |
| 9 | Advertising | 4,800 – 4,000 | 800 |
| 10. | Investment Income | 9,000 + 3,000 | 12,000 |
| 11. | Debenture Interest | 5,600 + 10,800 – 200 | 16,200 |
| 12. | Delivery vans at cost | 260,000 + 54,000 – 28,000 | 286,000 |
| 13. | Provision for Dep – vans | 80,000 + 27,950 – 16,100 | 91,850 |
| 14. | Debtors<br>Bad Debts | 98,400 – 3,000 – 450<br>3.000 – 900 | 94,950<br>2,100 |
| 15. | Creditors | 82,200 – 180 | 82,020 |
| 16. | Bank Overdraft | 33,000 + 180 – 900 | 32,280 |

**<u>Penalties</u>:** Deduction of 2 x 1 mark for the omission of two expense headings in Profit & Loss Account.

**Question 2 – Correction of errors**

**40**

**(a)**

| | | Debit | Credit |
|---|---|---|---|
| **(i)** | Debtor | 7,600 [2] | |
| | Bank | | 7,600 [2] |
| | Being transfer from bank account to debtors account due to previous incorrect entry | | |
| **(ii)** | Purchases returns/Purchases | 1,200 [2] | |
| | Creditor | 7,500 [2] | |
| | Suspense | | 8,700 [2] |
| | Being correction of incorrect entries in purchases returns and creditors account. [1] | | |
| **(iii)** | Creditor | 1,260 [2] | |
| | Capital | | 1,000 [2] |
| | Discount | | 260 [2] |
| | Being private debt owed to O'Connell offset against a debt owed to a creditor of O'Connell's business. [1] | | |
| **(iv)** | Premises | 600 [2] | |
| | Insurance | 520 [2] | |
| | Repairs | 600 [2] | |
| | Drawings/Capital | 520 [2] | |
| | Suspense | | 2,240 [2] |
| | Being recording of payments of repairs and drawings and cancellation of incorrect entries in buildings and insurance accounts. [1] | | |
| **(v)** | Equipment | 20 [2] | |
| | Suspense | 270 [2] | |
| | Purchases | | 290 [2] |
| | Sales returns | 920 [2] | |
| | Debtors | | 920 [2] |
| | Being sales returns 920 entered in error as 20 in equipment account and 290 in purchases account. [1] | | |

**(b)**

**14**

**Statement of Corrected Net Profit**

| | | | € | € |
|---|---|---|---|---|
| Original Net Profit as per books | | | | 41,000 [1] |
| **Add:** | Discount received | **(iii)** | 260 [2] | |
| | Purchases | **(v)** | 290 [2] | 550 |
| | | | | 41,550 |
| **Less:** | Purchases Returns | **(ii)** | 1,200 [2] | |
| | Insurance | **(iv)** | 520 [1] | |
| | Repairs | **(iv)** | 600 [1] | |
| | Sales returns | **(v)** | 920 [1] | (3,240) |
| | Corrected Net Profit | | | 38,310 [4] |

**(c)**

**6**

**(i)** A Trial Balance is prepared in order to test the accuracy of double entry bookkeeping before preparing Final Accounts. A Trial Balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit entry should have a corresponding credit entry.

**(ii)** **Errors <u>not</u> revealed by a trial balance**:

Errors of original entry – errors made in books of first entry
Errors of principle – incorrect class of account – entering an asset in an expense account
Errors of complete omission – where both debit and credit are omitted
Errors of commission – posting to wrong account but to the correct side of correct type of account
Compensating errors – where errors of equal value cancel each other out
Reversal of entries – where the debit entry is on the credit side and the credit entry is on the debit

**Question 3 – Revaluation of Fixed Assets**

**52**

**(a)**

**Land and Buildings Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2007 | Balance b/d | 600,000 [1] | | | |
| 01/01/2007 | Revaluation Res. | 100,000 [1] | 31/12/2007 | Balance c/d | 700,000 |
| | | 700,000 | | | 700,000 |
| | | | | | |
| 01/01/2008 | Balance b/d | 700,000 | 01/01/2008 | Disposal | 270,000 [1] |
| | | | 31/12/2008 | Balance c/d | 430,000 |
| | | 700,000 | | | 700,000 |
| | | | | | |
| 01/01/2009 | Balance b/d | 430,000 [1] | | | |
| | Bank | 500,000 [1] | | | |
| | Bank | 100,000 [1] | | | |
| | Wages | 50,000 [1] | 31/12/2009 | Balance c/d | 1,080,000 |
| | | 1,080,000 | | | 1,080,000 |
| | | | | | |
| 01/01/2010 | Balance b/d | 1,080,000 | | | |
| 01/01/2010 | Revaluation Res | 108,000 [2] | 03/12/2010 | Balance c/d | 1,188,000 |
| | | 1,188,000 | | | 1,188,000 |
| | | | | | |
| 01/01/2011 | Balance b/d | 1,188,000 | 01/01/2011 | Disposal | 473,000 [1] |
| | Revaluation Res | 235,000 [3] | 31/12/2011 | Balance c/d | 950,000 |
| | | 1,423,000 | | | 1,423,000 |
| | | | | | |
| 01/01/2012 | Balance b/d | 950,000 | | | |

**Provision for Depreciation Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2007 | Revaluation Res. | 28,800 [1] | 01/01/2007 | Balance b/d | 28,800 [2] |
| 31/12/2007 | Balance c/d | 8,600 | 31/12/2007 | Profit & Loss | 8,600 [2] |
| | | 37,400 | | | 37,400 |
| | | | | | |
| 31/12/2008 | Balance c/d | 17,200 | 01/01/2008 | Balance b/d | 8,600 |
| | | | 31/12/2008 | Profit & Loss | 8,600 [2] |
| | | 17,200 | | | 17,200 |
| | | | | | |
| 31/12/2009 | Balance c/d | 38,800 | 01/01/2009 | Balance b/d | 17,200 |
| | | | 31/12/2009 | Profit & Loss | 21,600 [1] |
| | | 38,800 | | | 38,800 |
| | | | | | |
| 01/01/2010 | Revaluation Res. | 38,800 [2] | 01/01/2010 | Balance b/d | 38,800 |
| 31/12/2010 | Balance c/d | 23,760 | 31/12/2010 | Profit & Loss | 23,760 [2] |
| | | 62,560 | | | 62,560 |
| | | | | | |
| 01/01/2011 | Disposal | 9,460 [2] | 01/01/2011 | Balance b/d | 23,760 |
| | Revaluation Res. | 14,300 [3] | 31/12/2011 | Profit & Loss | 19,000 [1] |
| 31/12/2011 | Balance c/d | 19,000 | | | |
| | | 42,760 | | | 42,760 |
| | | | | | |
| | | | 01/01/2012 | Balance b/d | 19,000 |

**Disposal of Land Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2008 | Land | 270,000 [1] | 01/01/2008 | Bank | 320,000 [1] |
| 31/12/2008 | Profit & Loss a/c | 50,000 [1] | | | |
| | | 320,000 | | | 320,000 |

**Disposal of Buildings**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2011 | Buildings | 473,000 [1] | 01/01/2011 | Bank | 400,000 [1] |
| | | | | Depreciation | 9,460 [1] |
| | | | | Loss- P & L a/c | 63,540 [1] |
| | | 473,000 | | | 473,000 |

**Revaluation Reserve Account**

| | | | | | |
|---|---|---|---|---|---|
| 01/01/2008 | Revenue Res. | 30,000 [1] | 01/01/2007 | Land & Buildings | 100,000 [1] |
| 01/01/2011 | Revenue Res. | 167,600 [2] | | Provision for Dep. | 28,800 [1] |
| 31/12/2011 | Balance c/d | 327,300 [3] | 01/01/2010 | Land & Buildings | 108,000 [1] |
| | | | | Provision for Dep. | 38,800 [1] |
| | | | 01/01/2011 | Land & Buildings | 235,000 [1] |
| | | | | Provision for Dep. | 14,300 [1] |
| | | 524,900 | | | 524,900 |
| | | | 31/12/2011 | Balance b/d | 327,300 |

**Revenue Reserve Account**

| | | | | | |
|---|---|---|---|---|---|
| | | | 01/01/2008 | Revaluation Res | 30,000 [1] |
| | | | 01/01/2011 | Revaluation Res. | 167,600 [1] |
| | | | | | 197,600 |

**(b)** **8**

**(i)**

**Balance Sheet (extract) as at 31/12/2011**

| | | | |
|---|---|---|---|
| **Fixed Assets** | **€** | **€** | **€** |
| Land and Buildings | 950,000 [1] | 19,000 [1] | 931,000 |
| | | | |
| **Capital and Reserves** | | | |
| Revaluation Reserve | | | 327,300 [2] |
| Revenue Reserve | | | 197,600 [2] |

**(ii)**

**Factors used to determine annual depreciation charge.** [2]

Cost of asset
Estimated life of asset
Estimated residual/scrap value of asset
Selection of appropriate method of depreciation

**Question 4 – Farm Accounts**

**(a)** **20**

**Statement of Capital 1/1/2011**

| | | € | € |
|---|---|---|---|
| **Assets** | | | |
| Land & buildings | | 405,000 [2] | |
| Machinery | | 85,000 [2] | |
| Investments | | 80,000 [3] | |
| Milk cheque due | | 1,500 [1] | |
| Cattle | | 70,000 [1] | |
| Sheep | | 15,000 [1] | |
| Stock of fuel | | 740 [1] | |
| Bank | | 28,100 [2] | 685,340 |
| **Less Liabilities** | | | |
| Electricity due | | 360 [1] | |
| Bank loan | | 18,000 [2] | |
| Loan interest due | **W1** | 840 [3] | (19,200) |
| **Capital** | | | 666,140 [1] |

**(b)** **20**

**Enterprise Analysis Account – Cattle and Milk**

| | | € | € |
|---|---|---|---|
| **Income** | | | |
| Sales – Milk | **W2** | 26,900 [2] | |
| Sales – Cattle & Calves (15,000 + 6,000) | | 21,000 [1] | |
| Single payment cattle | | 3,200 [1] | |
| Increase in stock value | | 8,000 [1] | |
| Drawings by family | | 850 [1] | 59,950 |
| **Expenditure** | | | |
| Purchases – Cattle | | 13,000 [1] | |
| Dairy wages | | 2,500 [1] | |
| General farm expenses | | 7,260 [1] | |
| Fertiliser | | 1,698 [1] | |
| Vet fees | | 918 [1] | (25,376) |
| Gross Profit | | | 34,574 |

**Enterprise Analysis Account –Sheep**

| | | € | € |
|---|---|---|---|
| **Income** | | | |
| Sales – Sheep & Lambs (22,000 + 12,600) | | 34,600 [1] | |
| Single payment sheep | | 2,300 [1] | |
| Wool | | 1,200 [1] | |
| Increase in stock value | | 7,000 [1] | |
| Drawings family | | 480 [1] | 45,580 |
| **Expenditure** | | | |
| Purchases – sheep | | 19,000 [1] | |
| General farm expenses | | 4,840 [1] | |
| Fertiliser | **W3** | 1,132 [1] | |
| Vet fees | **W4** | 612 [1] | (25,584) |
| Gross profit | | | 19,996 |

**(c)** **12**

**General Profit and loss Account for the year ended 31/12/2011**

| | | | |
|---|---|---|---|
| **Income** | | **€** | **€** |
| Gross profit – Cattle and Milk | | 34,574 | |
| Gross profit – Sheep | | 19,996 | |
| Interest | **W5** | 2,400 [1] | |
| Forestry premium | | 1,700 [1] | 58,670 |
| **Less Expenditure** | | | |
| Light, heat and fuel (75%) | **W6** | 1,710 [4] | |
| Repairs (75%) | | 4,050 [1] | |
| Machinery Depreciation | | 6,825 [1] | |
| Buildings Depreciation | | 3,075 [1] | |
| Loan Interest | **W1** | 180 [1] | (15,840) |
| Net Profit | | | 42,830 [2] |

**(d)** **5**

**Drawings A/c**

| | € | | € |
|---|---|---|---|
| Milk | 850 | Capital | 7,700 |
| Lamb | 480 | | |
| Interest | 60 | | |
| Light and heat | 570 | | |
| VHI | 1,090 | | |
| Repairs | 1,350 | | |
| Depreciation - Machinery | 2,275 | | |
| Depreciation - Buildings | 1,025 | | |
| | 7,700 | | 7,700 |

**(e)** **Purpose of farm accounts** **3**

To establish the performance of each section of the farm for comparative purposes
To back up applications for bank loans and specific grants
To ascertain tax liability
To facilitate planning/budgeting
To find out the net worth of the farm
To find out the amount owed by and owed to the farmer

**Workings**

1. Interest -18 months interest = 4% x 1.5 = 6%
   106% = 19,080 → 6% = 1,080

| | | |
|---|---|---|
| Interest for year 2011 is | 240 | |
| Less Drawings | (60) | 180 |

2.

| | | |
|---|---|---|
| Milk sales | 27,000 | |
| Add due 31/12 | 1,400 | |
| Less due 1/1 | (1,500) | 26,900 |

3. Fertiliser Add due 31/12 — 2,400 – 430 — 2,830

4. Veterinary fees Less VHI — 2,620 – 1,090 — 1,530

5. 3% Investment Bond
   [Annual interest **x** 100 ÷ 3] = 2,400 x 100 ÷ 3] = 80,000

6.

| | | |
|---|---|---|
| Light Heat and Fuel | 2,400 | |
| Add stock 1/1 | 740 | |
| Less due 1/1 | (360) | |
| Less stock 31/12 | (500) | |
| Less drawings (25% of 2,280) | (570) | 1,710 |

**Question 5**

**(a)** **50**

**(i) Cash Purchases:** = Total purchases less credit purchases

Credit purchases = $\frac{98,000 \times 12}{2.5}$ = 470,400

Cash purchases = 600,000 – 470,400 = 129,600 **129,600 [12]**

**(ii) Interest Cover**

$\frac{\text{Profit before interest}}{\text{Interest}} = \frac{63,000}{20,000} =$ **3.15 times [8]**

**(iii) Dividend Cover**

$\frac{\text{Profit after (Interest and Pref Dividend)}}{\text{Ordinary dividend}} = \frac{43,000 - 15,000}{10,000} =$ **2.8 times [8]**

**(iv) Period to recoup price**

$\frac{\text{Market price}}{\text{Dividend per share}} = \frac{115}{3.333} =$ **34.50 years [12]**

**(v) Projected Market value**

Price earnings ratio x Earnings per share = 16 x 7c **€1.12 [10]**

**(b)** **35**

5 points at 6 marks each
1 point at 5 marks

**Profitability** 6
The ROCE was 7.35% in 2011. The ROCE is expected to rise to 8.1% in 2012
Glass plc is a profitable company. This return is above the return from risk free investments of 3% to 5%. This is satisfactory in the current economic climate and next year is expected to be better. However the ROCE of 7.35% is lower than the company's cost of borrowing of 8%. Why borrow at 8% to finance a return of 7.35%. The company did not make efficient use of resources in 2011.

**Dividend Policy** 6
The Dividend Cover is 2.8 times. The expected cover will be down in 2012 to 1.67 times
Not enough of earnings are retained particularly in 2012
Dividend per share in 2011 is 3.33 cent and expected to be 4.2 cent in 2012. Shareholders would be happy with this trend.
The dividend yield is 2.90%. The dividend yield in 2012 will be 3.75%.
Not enough return for taking a risk – only around the same as risk free investments of 3 to 5%

Period to recoup price at current dividend per share is 34.50 years
Price earnings ratio is 12.3 to 1 and expected to rise to 16 to 1 in 2012

**Liquidity** 6

The Quick Ratio is 0.56 to 1 in 2011. Glas plc has a liquidity problem. There is only 56c available for every €1 owed in the short term. This would be a cause for concern.
Liquidity is expected to improve in 2012 to 0.85 to 1. This will make 85c available for every €1 owed in the short term. The improving of this ratio indicates an ability to pay dividends, if declared in 2012.

**Market Price of Share** 6

Market price of share in 2011 was 115c. Market price of share in 2012 is expected to fall to 112c. This indicates a reduced value over the next year. Shareholders would be concerned by this trend as it indicates a lack of market confidence in the company.
Price earnings ratio in 2011 was 12.3 years. However PER in 2012 is expected to be 16 to 1.
Based on Div Pay Out rate the price recoup period is 34.5 years and 26.7 years in 2011 and 2012 respectively

.

**Gearing** 6

The company is highly geared. Gearing in 2011 is 58.34% and is expected to improve to 51% in 2012. This is still high but the trend is good. This indicates that the company is dependent on outside borrowing and therefore at risk from outside investors.
Interest Cover was 3.15 times in 2011. Interest cover is expected to be 3 times in 2012
This worsening trend could make the payment of both interest and dividends more difficult.

**Sector** 5

The company is in the renewable energy sector. This is a growing market with emphasis on the environment.
The prospects are average in the short term – Government grants for insulation and water heating.
Its prospects are good in the long term particularly because of oil shortages and rising oil prices

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

**(i)** **Gross Profit percentage** = **24.68%** **[5]**

**(ii)** **[10]**

| | |
|---|---|
| Cash losses | cash sales not recorded |
| Stock losses | pilferage of stock or obsolescent stock |
| Change in sales mix | more sales of low markup goods |
| Mark downs during sales | to get rid of out-of-date stock |
| Incorrect valuation of stock | overvalue of opening stock, undervalue of closing stock |
| Increased cost of sales | without an increase in sales price |
| Falling sales price | without corresponding drop in cost of sales |

**Question 6**

**(a)**

**18**

**Statement of Capital and Reserves on 1/1/2011**

| | | € | € |
|---|---|---|---|
| **Assets** | | | |
| Buildings and grounds | (520,000 – 31,200) | 488,800 [2] | |
| Equipment | (75,000 – 22,500) | 52,500 [2] | |
| Vehicles | (60,000 – 36,000) | 24,000 [2] | |
| Stock in shop | | 3,600 [1] | |
| Stock of oil | | 1,800 [1] | |
| 5% Investments | | 40,000 [1] | |
| Contract cleaning prepaid | | 300 [1] | |
| Cash at bank | | 6,500 [1] | 617,500 |
| **Less Liabilities** | | | |
| Creditors for supplies | | 1,500 [1] | |
| Clients fees paid in advance | | 5,000 [1] | |
| Loan | | 30,000 [1] | |
| Interest on loan (12 months @ 400 per month) | | 4,800 [2] | |
| Issued Capital | | 350,000 [1] | (391,300) |
| **Reserves** | | | 226,200 [1] |

**(b)**

**10**

**Shop Profit and Loss Account for the year ended 31/12/2011**

| | | | |
|---|---|---|---|
| Shop receipts | | | 42,000 [1] |
| **Less** Expenses | | | |
| Cost of goods sold | **W 1** | 28,000 [5] | |
| Light and heat | | 300 [1] | |
| Insurance | | 900 [1] | |
| Telephone | | 400 [1] | |
| Wages and salaries (40% x 20,000) | | 8,000 [1] | (37,600) |
| Profit from shop | | | 4,400 |

**(c)** **36**

**Profit and Loss Account for year ended 31/12/2011**

| | | | |
|---|---|---|---|
| **Income** | | | |
| Investment income | | 2,000 [1] | |
| Profit from shop | | 4,400 [1] | |
| Clients' fees | **W 2** | 320,100 [5] | 326,500 |
| **Less Expenditure** | | | |
| Wages and salaries (84,300 – 8,000) | | 76,300 [2] | |
| Insurance (6,200 – 900) | | 5,300 [2] | |
| Light and heat | **W 3** | 4,740 [5] | |
| Purchases – supplies | **W 4** | 35,100 [3] | |
| Loan interest | | 1,200 [1] | |
| Laundry | | 3,000 [1] | |
| Postage and telephone (1,400 – 400) | | 1,000 [2] | |
| Depreciation – Buildings | | 14,800 [1] | |
| – Equipment | | 9,500 [1] | |
| – Vehicles | | 10,800 [1] | |
| Loss on sale of Vehicle | | 10,000 [2] | |
| Contract cleaning | **W 5** | 3,000 [3] | (174,740) |
| Net Profit for year | | | 151,760 [4] |
| Add Reserves 01/01/2011 | | | 226,200 [1] |
| Profit and Loss balance 31/12/2011 | | | 377,960 |

**(d)** **30**

**Balance sheet as at 31/12/2011**

| **Fixed Assets** | **Cost €** | **Depreciation €** | **Net €** |
|---|---|---|---|
| Buildings and grounds | 850,000 [1] | | 850,000 |
| Equipment (75,000 + 20,000) | 95,000 [2] | 32,000 [2] | 63,000 |
| Vehicles | 48,000 [1] | 4,800 [2] | 43,200 |
| | 993,000 | 36,800 | 956,200 |
| 5% Investments | | | 40,000 [2] |
| | | | 996,200 |
| **Current Assets** | | | |
| Investment income due | 900 [3] | | |
| Closing stock – shop | 1,600 [1] | | |
| Closing stock – oil | 400 [1] | | |
| Cleaning prepaid | 700 [1] | | |
| Clients' fees due | 600 [2] | 4,200 | |
| **Less Creditors: amounts falling due within 1 year** | | | |
| Electricity due | 340 [1] | | |
| Clients' advance deposits | 5,500 [2] | | |
| Bank | 108,600 [2] | | |
| Creditors for supplies | 2,000 [2] | (116,440) | (112,240) |
| | | | 883,960 |
| **Financed by** | | | |
| **Share Capital and Reserves** | **Authorised** | **Issued** | |
| Ordinary Shares | 400,000 [1] | 350,000 [1] | |
| Revaluation Reserve | | 156,000 [3] | |
| Profit and Loss balance | | 377,960 | 883,360 |
| | | | 883,960 |

**(e)**

**6**

**Funding options for new equipment**

| My advice to the company would be: | € |
|---|---|
| Sell investments | 40,000 |
| Sell remaining shares | 50,000 |
| Borrow | 60,000 |
| | 150,000 |

The company would be well able to pay back the loan quickly as the accounts show that it had a surplus €151,760 in 2011 and the company is generating enough cash. Although it owes the bank €108,600 it has paid out amounts up to €310,000 on non-recurring and non-trading items.

**Workings**

**1. Cost of goods sold**

| | | |
|---|---|---|
| Stock 1/1/2011 | 3,600 | |
| Add Purchases | 26,000 | |
| Less Stock 31/12/2011 | (1,600) | 28,000 |

**2. Clients' fees**

| | | |
|---|---|---|
| Amount received | 320,000 | |
| Advance deposits | 5,000 | |
| Fees due | 600 | |
| Less fees prepaid | (5,500) | 320,100 |

**3. Light and heat**

| | | |
|---|---|---|
| Amount paid | 3,300 | |
| Stock oil 1/1/2011 | 1,800 | |
| Electricity due | 340 | |
| Stock oil 31/12/2011 | (400) | |
| Charge to shop | (300) | 4,740 |

| | | |
|---|---|---|
| **4. Purchases** | 34,600 + 2,000 – 1,500 | 35,100 |
| **5. Contract cleaning** | 3,400 +300 – 700 | 3,000 |

**Question 7**

**(a)** **88**

**(i) Abridged Profit and Loss account for the year ending 31/12/2011**

| | € | |
|---|---|---|
| Operating profit | 337,000 | |
| Investment Income | 3,000 | [3] |
| Less debenture interest | (25,000) | [3] |
| Profit before tax | 315,000 | |
| Taxation | (110,000) | [3] |
| Profit after tax | 205,000 | |
| Dividends | (40,000) | [3] |
| Retained profit | 165,000 | |
| Profit and loss balance 01/01/2011 | 31,000 | [3] |
| Profit and loss balance 31/12/2011 | 196,000 | [3] |

**(ii) Reconciliation of operating profit to net cash flow from operating activities**

| | | € | |
|---|---|---|---|
| Operating profit | | 337,000 | [2] |
| Depreciation charge for the year | **W1** | 72,000 | [4] |
| Profit on sale of buildings | | (13,000) | [2] |
| **Decrease** in stock | | 24,000 | [3] |
| **Increase** in debtors | | (200,000) | [3] |
| **Increase** in creditors | | 14,000 | [3] |
| Net cash inflow from operating activities | | 234,000 | |

**Cash Flow statement of Danton plc for the year ended 31/12/2011**

| | | € | € |
|---|---|---|---|
| **Operating Activities** | | | |
| Net cash inflow from operating activities | | | 234,000 [2] |
| | | | |
| **Return on Investment and Servicing of Finance** [1] | | | |
| Investment income received | | 2,000 [3] | |
| Interest on debentures paid | | (30,000) [3] | (28,000) |
| | | | |
| **Taxation** [1] | | | |
| Tax paid | **W3** | | (45,000) [3] |
| | | | |
| **Capital expenditure and financial investment** [1] | | | |
| Receipts from sale of buildings | **W4** | 101,000 [5] | |
| Payments to acquire buildings | **W5** | (160,000) [5] | |
| Payments to acquire machinery | **W6** | (119,000) [4] | (178,000) |
| | | | |
| **Equity dividends paid** [1] | | | |
| Dividends paid | | | (40,000) [3] |
| Net cash **outflow** before liquid resources and financing | | | (57,000) |
| | | | |
| **Management of liquid resources** [1] | | | |
| Purchase of government securities | | | (60,000) [3] |
| | | | |
| **Financing** [1] | | | |
| Repayment of debentures | | (50,000) [3] | |
| Receipts from the issue of ordinary shares | | 200,000 [2] | |
| Receipts from share premium | | 20,000 [2] | 170,000 |
| **Increase in Cash** | | | 53,000 [4] |

**Reconciliation of net cash to movement in net debt**

| | € | |
|---|---|---|
| Increase in cash | 53,000 | [1] |
| Cash used to purchase liquid resources | 60,000 | [1] |
| Repurchase of debentures | 50,000 | [1] |
| Change in net debt | 163,000 | |
| Net debt at 01/01/2011 | (228,000) | [1] |
| Net debt at 31/1/2/2011 | (65,000) | [1] |

**Workings**

| | | | | |
|---|---|---|---|---|
| **1.** | Depreciation | 225,000 – 165,000 + 12,000 | = | 72,000 |
| **2.** | Investment income | 2000 + 3000 – 3000 | = | 2,000 |
| **3.** | Taxation | 110,000 + 45,000 - 110,000 | = | 45,000 |
| **4.** | Sale of buildings | 90,000 + 13,000 - 2,000(dep) | = | 101,000 |
| | Depreciation on disposed building | 110,000 + 12,000 – 120,000 | = | 2,000 |
| **5.** | Purchase of buildings | 850,000 – [780,000 - 90,000] | = | 160,000 |
| **6.** | Purchase of machinery | 349,000 – 230,000 | = | 119,000 |

**(b)**

**12**

**(i)**

Danton plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €337,000 was made but the increase in cash for the year was €53,000.

**Reasons:**

Credit sales earn profit but do not increase cash. Debtors increased by €200,000

Non-cash gains/losses increase/decrease profit but not cash. Profit on sale of buildings/ depreciation €13,000/€72,000.

Sale/Purchase of fixed assets Increase/decrease cash but not profit. Receipts €101,000, Payments €160,000 and €119,000

Introduction/withdrawal of capital increases/decreases cash but not profit. Receipts €220,000, payments €50,000

**(ii) Responsibility of Directors**

To comply with the Companies Acts
To keep proper accounting records enabling financial statements to be prepared
Prepare annual financial statements
Select suitable accounting policies
Sign financial statements
Safeguard the assets of the company
Publish Final Accounts and Cash Flow Statement at least once a year
Present an Annual Report to shareholders at AGM to include:

Directors' report
Auditor's Report
Financial Statements

## Question 8

**(a)**

**50**

**(i)**

| Overhead | | Basis | Total | Production Dept 1 | | Production Dept 2 | | Service Dept X | | Service Dept Y | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dep of equipment | [1] | Book value | 20,000 | 5,000 | [1] | 7,500 | [1] | 4,500 | [1] | 3,000 | [1] |
| Dep of buildings | [1] | Floor area | 24,000 | 9,600 | [1] | 7,200 | [1] | 4,800 | [1] | 2,400 | [1] |
| Factory heating | [1] | Volume | 8,000 | 2,000 | [1] | 4,000 | [1] | 1,200 | [1] | 800 | [1] |
| Factory cleaning | [1] | Floor area | 4,000 | 1,600 | [1] | 1,200 | [1] | 800 | [1] | 400 | [1] |
| Canteen | [1] | No.Employees | 5,400 | 2,100 | [1] | 1,500 | [1] | 1,050 | [1] | 750 | [1] |
| | | | 61,400 | 20,300 | [1] | 21,400 | [1] | 12,350 | [1] | 7,350 | [1] |

**(ii)**

| | Production Dept 1 | | Production Dept 2 | | Service Dept X | Service Dept Y |
|---|---|---|---|---|---|---|
| Total Cost | 20,300 | | 21,400 | | 12,350 | 7,350 |
| Apportion Dept X to Production | 9,880 | [2] | 2,470 | [2] | (12,350) | |
| Apportion Dept Y to Production | 5,880 | [2] | 1,470 | [2] | | (7,350) |
| | 36,060 | | 25,340 | | | |

**(iii)**

Machine hour absorption rate

Dept 1 $\frac{36,060}{4,000}$ = €9.015 per machine hour [4]

Dept 2 $\frac{25,340}{1,000}$ = €25.34 per machine hour [4]

**(iv)** [5]

Service departments can’t recover costs. Service departments are secondary to production departments and as a result, service department costs must be transferred to production departments on an equitable basis e.g. machine hours. Overheads can only be recovered through production i.e. they are included as a cost of production.

**(b)**

**30**

**(i)**

| **Production overheads** | **Units** | **Total Cost** |
|---|---|---|
| | | **€** |
| High | 18,000 | 113,400 |
| Low | 12,000 | 79,200 |
| Difference | 6,000 | 34,200 |

The variable cost of 6,000 units is 34,200, therefore the variable cost per unit is **€5.70** [4]

| | | | |
|---|---|---|---|
| Total production overhead cost | 79,200 | 102,000 | 113,400 |
| Less variable costs | (68,400) | (91,200) | (102,600) |
| Therefore, Fixed cost | 10,800 | 10,800 | 10,800 [4] |

**(ii)**

**Flexible Budget in Marginal Costing format**

| | | **€** | **€** |
|---|---|---|---|
| Sales | | | 834,500 [1] |
| Less: Variable Costs | | | |
| Direct Materials | (19,000 x 13) | 247,000 [2] | |
| Direct Labour | (19,000 x 9) | 171,000 [2] | |
| Production overheads | (19,000 x 5.70) | 108,300 [1] | |
| Other overhead costs | (19,000 x 5.10) | 96,900 [1] | (623,200) |
| **Contribution** | | | **211,300** [4] |
| Less Fixed Costs | | | |
| Production overheads | | 10,800 [1] | |
| Other overheads | | 3,600 [1] | |
| Administration | | 30,000 [1] | (44,400) |
| Profit | | | 166,900 [2] |

| | | |
|---|---|---|
| Total cost is 80% of sales. | | |
| Total cost is 623,200 + 44,400 | = | 667,600 |
| 80% of sales | = | 667,600 |
| 100% | = | 834,500 |

**(iii)** [6]

**Controllable Costs:** Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g.- all variable costs are controllable. Commission to sales personnel can be controlled by the sales manager.

**Uncontrollable Costs:** Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable.

**Question 9**

**(a)**

**62**

**Cash Budget July to December**

| **Receipts** | **July** | **August** | **September** | **October** | **November** | **December** |
|---|---|---|---|---|---|---|
| Cash sale receipts | 197,600[1] | 205,200[1] | 231,800[1] | 239,400[1] | 243,200[1] | 250,800[1] |
| Cr Sales 1 month | | 156,000[1] | 162,000[1] | 183,000[1] | 189,000[1] | 192,000[1] |
| Cr Sales 2 months | | | 156,000[1] | 162,000[1] | 183,000[1] | 189,000[1] |
| | 197,600 | 361,200 | 549,800 | 584,400 | 615,200 | 631,800 |
| | | | | | | |
| **Payments** | | | | | | |
| Purchases 1 month | | 107,800[1] | 117,600[1] | 132,300[1] | 137,200[1] | 176,400[1] |
| Purchases 2 months | | | 110,000[1] | 120,000[1] | 135,000[1] | 140,000[1] |
| Wages | 50,000[½] | 50,000[½] | 50,000[½] | 50,000[½] | 50,000[½] | 50,000[½] |
| Variable Overhead | 104,000[1] | 108,000[1] | 122,000[1] | 126,000[1] | 128,000[1] | 132,000[1] |
| Fixed Overhead | 59,100[3] | 59,100[1] | 59,100[1] | 59,100[1] | 59,100[1] | 59,100[1] |
| Equipment | 54,000[1] | | | | | |
| Loan instalment | | 2,000[1] | 2,000 | 2,000 | 2,000 | 2,000 |
| Interest | 240[2] | 230[1] | 220[1] | 210[1] | 200[1] | 190[1] |
| | (267,3400) | (327,130) | (460,920) | (489,610) | (511,500) | (559,690) |
| | | | | | | |
| Net Cash | (69,740)[1] | 34,070[1] | 88,880[1] | 94,790[1] | 103,700[1] | 72,110[1] |
| Bank Loan | 48,000 [1] | | | | | |
| Opening Balance | | (21,740)[1] | 12,330 | 101,210 | 196,000 | 299,700 |
| Closing Balance | (21,740) | 12,330 | 101,210 | 196,000 | 299,700 | 371,810[4] |

**(b)**

**13**

| **Budgeted Profit & Loss Account** | **€** | **€** |
|---|---|---|
| Sales | | 3,600,000 [1] |
| Less Cost of Sales | | |
| Purchases materials | 1,750,000 [1] | |
| Labour | 300,000 [1] | |
| Variable Overhead | 720,000 [1] | |
| Fixed Overhead | 354,600 [1] | (3,124,600) |
| Gross Profit | | 475,400 |
| Depreciation – Equipment | 5,400 [1] | |
| Discount Allowed | 72,000 [2] | (77,400) |
| | | 398,000 |
| Add Discount Received | | 13,700 [2] |
| | | 411,700 |
| Less Interest | | (1,290) [1] |
| Net Profit | | 410,410 [2] |

**(c)**

**5**

Last year sales from other stores
Market research/ opinion of sales manager and sales representatives
Trends/ State of Economy
Price to be charged/Sales price
Competition
Luxuries versus necessities