Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2012

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 18 JUNE – AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

Section 1: **Financial Accounting** (120 marks).
This section has four 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 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. It is very important that workings are shown in the answerbook(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

West Ltd, has an Authorised Capital of €1,600,000 divided into 1,100,000 Ordinary Shares at €1 each and 500,000 4% Preference Shares at €1 each.

The following Trial Balance was extracted from its books at 31/12/2011:

	€	€
Buildings at cost	800,000	
Delivery Vans (cost €260,000)	180,000	
Discount (Net)		10,400
Profit and Loss Balance 01/01/2011	25,100	
Stocks on hand 01/01/2011	71,200	
Debenture interest for the first four months	5,600	
4% Investments 01/01/2011	300,000	
Patents (incorporating 3 months investment income)	20,400	
Purchases and Sales	1,140,000	1,444,700
Dividends paid	23,300	
Bad Debts Provision		3,000
Debtors and Creditors	98,400	82,200
Bank		33,000
Salaries and general expenses (including Suspense)	194,300	
9% Debentures		180,000
Issued Share Capital – Ordinary Shares		700,000
– 4% Preference Shares		400,000
Directors fees	40,200	
Advertising	4,800	
Capital Reserve		50,000
	2,903,300	2,903,300

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

(i) Stocks at 31/12/2011 at cost were €81,200 – this figure includes damaged stock which cost €5,400 but which now has a net realisable value of €2,300.

(ii) Patents, which incorporated 3 months investment income, are to be written off over a 4 year period commencing in 2011.

(iii) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct entry had been made in the bank account) and discount allowed €450 entered only in the discount account.

(iv) During the year, stock which had cost €5,000 was destroyed by fire. The Insurance Company agreed to pay compensation of €4,000. The loss is to be treated as a separate item in the profit and loss account.

(v) Provide for depreciation on delivery vans at the annual rate of 10% of cost from the date of purchase to the date of sale. NOTE: On 31/3/2011 a delivery van which had cost €28,000 on 30/6/2005 was traded in against a new van which cost €54,000. An allowance of €6,000 was given 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.

(vi) The figure for bank in the Trial Balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2011 has arrived showing an overdraft of €31,280. A comparison of the bank account and the bank statement has revealed the following discrepancies:
1. A cheque for €640 issued to a supplier had been entered in the books (cash book and ledger) as €460.
2. A credit transfer of €900 had been paid direct to the firm's bank account on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30c in the €1.
3. A cheque for fees €1,000 issued to a director had not yet been presented for payment.

(vii) The advertising payment is for an 18 month campaign which began on 01/10/2011.

(viii) The Directors recommend that:
1. Provision be made for both Investment Income and Debenture Interest due.
2. Provision for bad debts to be adjusted to 4% of debtors.
3. Buildings to be depreciated by 2% of cost.

You are required to prepare a:

(a) Trading and Profit and Loss Account for the year ended 31/12/2011. (75)
(b) Balance Sheet as at 31/12/2011. (45)

(120 marks)

2. Correction of errors and suspense account

The Trial Balance of N. O'Connell, a garage owner, failed to agree on 31/12/2011. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €41,000.

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

(i) O'Connell's private car valued at €7,000 was presented to the business. This car was later sold on credit to a debtor of the business for €7,600. The sale had been treated as a cash sale.

(ii) O'Connell had returned a motor car, previously purchased on credit from a supplier, for €9,000 and had entered this transaction in the relevant ledger accounts incorrectly as €9,900. However, a credit note subsequently arrived from a supplier showing a restocking charge of €300 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €8,700 in the creditors account.

(iii) A private debt of €1,000 owed to O'Connell had been offset in full settlement against a business debt of €1,260 owed by O'Connell. No entry had been made in the books in respect of this transaction.

(iv) Payments from a business bank account for repairs to business premises €600 and insurance of private dwelling €520 were entered correctly in the bank account but respectively credited to premises account and credited to insurance account.

(v) Car parts, previously sold on credit for €920, had been returned to O'Connell. These returns had been incorrectly entered as €20 on the credit of equipment account and as €290 on the debit of purchases account.

Required:

(a) Journalise the necessary corrections. (40)

(b) Prepare a statement showing the corrected net profit. (14)

(c) (i) What is the purpose of preparing a Trial Balance?

(ii) State and explain **two** types of errors **not** revealed by the Trial Balance. (6)

(60 Marks)

3. Revaluation of Fixed Assets

On 1 January 2007 Logan Ltd owned freehold buildings which cost €360,000 and adjacent land which cost €240,000. The company depreciates its buildings at the rate of 2% per annum straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. This property had been purchased on 01/01/2003 and depreciation had been charged against profits in each of these four years (land is not depreciated).

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

Jan 1 2007	Re-valued land and buildings at €700,000. Of this re-valued amount €270,000 was attributable to land.
Jan 1 2008	Sold for €320,000 adjacent land which cost €240,000 but was since re-valued on 01/01/2007.
Jan 1 2009	Purchased buildings for €500,000. During the year 2009, €100,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €50,000 by Logan Ltd for this work.
Jan 1 2010	Re-valued buildings owned at €1,188,000 (a 10% increase in respect of each building).
Jan 1 2011	Sold for €400,000 the buildings owned on 01/01/2007. The remaining buildings were re-valued at €950,000.

Required:

(a) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31 December 2007 to 31 December 2011.
(Bank Account and Profit and Loss Account **not** required.) (52)

(b) (i) Show the relevant extract from the Balance Sheet as at 31/12/2011.
(ii) What factors are taken into account in arriving at an annual depreciation charge?
(8)

(60 marks)

4. Farm Accounts

Among the assets and liabilities of Mike and Anne Byrne, who carry on a mixed farming business, on 01/01/2011 are: Land and Buildings at cost €405,000; Vehicles and Machinery at cost €85,000; Electricity due €360; Value of Cattle €70,000; Value of Sheep €15,000; Milk cheque due €1,500 and Stock of Fuel €740.

The following is a summary taken from their cheque payments and lodgements books for the year ended 31/12/2011:

Lodgements	**€**	**Cheque Payments**	**€**
Balance 01/01/2011	28,100	Fertiliser	2,400
Milk	27,000	General farm expenses	12,100
Sheep	22,000	Dairy wages	2,500
Cattle	15,000	Sheep	19,000
Lambs	12,600	Cattle	13,000
Calves	6,000	Light, heat and fuel	2,400
Single Payment – Sheep	2,300	Machinery	6,000
Single Payment – Cattle	3,200	Repairs	5,400
Wool	1,200	Veterinary fees and medicines	2,620
Forestry premium	1,700	Bank Loan plus 18 months' interest	
Six months interest from		at 4% per annum on 30/4/2011	19,080
3% Investment Bond	1,200	Balance 31/12/2011	35,800
	€120,300		€120,300

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

		Cattle	**Sheep**
(i)	Value of Livestock on 31/12/2011 was	€78,000	€22,000

(ii) Farm produce used by the family during the year – Milk €850; Lamb €480.

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

(iv) Other expenses and costs are to be apportioned 75% to general farm and 25% to household.

(v) Depreciation to be provided on the following:
Vehicles and Machinery at the rate of 10% of cost per annum.
Land and Buildings at 2% per annum. (Land at cost was €200,000.)

(vi) Veterinary fees and medicines include a cheque for family health insurance for €1,090.

(vii) On 31/12/2011 a Milk cheque for €1,400 was due, Creditors for fertilisers amounted to €430 and Stock of Fuel was €500.

Required:

(a) Prepare a Statement of Capital for the farm on 01/01/2011. (20)

(b) Prepare an Enterprise Analysis Account for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/2011. (20)

(c) Prepare a general Profit and Loss account for the year ended 31/12/2011. (12)

(d) Prepare the Byrnes' Drawings Account. (5)

(e) Farmers prepare accounts to ascertain net profit. For what other purposes do they prepare accounts? (3)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following are the figures for the year ended 31/12/2011 and the projected figures for the year ended 31/12/2012 of Glas plc, a manufacturer in the renewable energy industry. Glas plc has an authorised capital of €850,000 made up of 600,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 300,000 ordinary shares and all the preference shares.

Trading and Profit and Loss account for year ended 31/12/2011

	€	€
Sales		790,000
Opening Stock	45,000	
Closing Stock	50,000	
Costs of goods sold		595,000
Gross Profit		195,000
Operating expenses for year		132,000
Net Profit		63,000
Interest		20,000
Dividends paid		25,000
Retained Profit		18,000
Profit and Loss Balance 01/01/2011		39,000
Profit and Loss Balance 31/12/2011		57,000

Projected Ratios for year ended 31/12/2012

Earnings per Ordinary Share	7c
Dividend per Ordinary Share	4.2c
Interest Cover	3 times
Quick Ratio	0.85:1
Price/earnings ratio	16:1
Return on Capital Employed	8.1%
Gearing	51%

Balance Sheet as at 31/12/2011		€
Fixed Assets		650,000
Investments (market value 31/12/2011 €210,000)		200,000
		850,000
Current Assets	105,000	
Less Creditors: **amounts falling due within 1 year**		
Trade Creditors	(98,000)	7,000
		857,000
Financed by		
8% Debentures (2018 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	300,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	57,000	607,000
		857,000

Market Value of one Ordinary Share €1.15

(a) You are required to calculate the following:

(i) Cash purchases if the period of credit received from Trade Creditors is 2.5 months.
(ii) The Interest Cover.
(iii) The Dividend Cover
(iv) How long it would take one ordinary share to recover its value at present pay out rate.
(v) The projected market value of one share in **2012**. (50)

(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) The gross profit percentage in 2010 was 36%.
(i) Calculate the gross profit percentage for 2011.
(ii) Give 5 different explanations for the decrease/increase in 2011. (15)

(100 marks)

6. Service Firm

The following were included in the assets and liabilities of the New Era Gym and Health Centre Ltd, on 01/01/2011:
Buildings and Grounds €520,000; Equipment €75,000; Vehicles at cost €60,000; Stock in shop €3,600; Stock of heating oil €1,800; Creditors for supplies to Gym and Health Centre €1,500; 5% Investments €40,000; Contract cleaning prepaid €300; Clients deposits paid in advance €5,000. The Authorised Capital of the company was €400,000 and the Issued Capital was €350,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2011.

The following is a Receipts and Payments Account for the year ended 31/12/2011:

Receipts and Payments Account of New Era Gym & Health Centre Ltd for year ended 31/12/2011

	€		€
Balance at Bank 01/01/2011	6,500	Laundry	3,000
Clients fees	320,000	Telephone	1,400
Investment Income	1,100	Wages & Salaries	84,300
Shop receipts	42,000	Repayment of €30,000 loan on 01/04/2011	
Balance 31/12/2011	108,600	with 15 months interest	36,000
		Equipment	20,000
		New extension	220,000
		New vehicle	40,000
		Contract cleaning	3,400
		Light and heat	3,300
		Insurance	6,200
		Purchases – shop	26,000
		Purchases – supplies	34,600
	478,200		478,200

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

(i) Closing stock at 31/12/2011: Shop €1,600, Heating oil €400.
(ii) Cleaning is done under contract payable monthly in advance and includes a payment of €700 for January 2012.
(iii) Clients fees includes fees for 2012 of €5,500. Clients fees in arrears at 31/12/2011 €600.
(iv) Wages and Salaries include €20,000 per annum paid to the secretary, who also runs the shop. It is estimated that 40% of this salary and €300 of the light and heat, €900 of the insurance and €400 of the telephone is attributable to the shop.
(v) Creditors for supplies to the Gym & Health Centre at 31/12/2011 are €2,000.
(vi) Electricity due on 31/12/2011 €340.
(vii) Depreciation to be provided as follows:
Buildings 2% of cost for the full year
Equipment 10% of cost for the full year
Vehicles 20% of cost per annum from date of purchase to date of sale.
The vehicle held on 01/01/2011 was purchased on 01/01/2008 and was traded in on 01/07/2011 against a new vehicle. The trade in allowance was €8,000 against a new vehicle valued at €48,000.
(viii) On 31/12/2011 the New Era Gym and Health Centre Ltd decided to re-value buildings at €850,000.

Required:

(a) Calculate the company's reserves (profit and loss balance) on 01/01/2011. (18)
(b) Calculate the profit/loss from the shop for the year ended 31/12/2011. (10)
(c) Prepare a Profit and Loss Account of New Era Gym and Health Centre Ltd for the year ended 31/12/2011. (36)
(d) Prepare a Balance Sheet on 31/12/2011. (30)
(e) The company now wishes to purchase equipment for the new extension.
Advise the company on how to fund the expected cost of €150,000. (6)

(100 marks)

7. Cash Flow Statement

The following are the Balance Sheets of Danton plc as at 31/12/2010 and 31/12/2011:

Balance Sheets as at	**31/12/2011**		**31/12/2010**	
Fixed Assets	**€**	**€**	**€**	**€**
Land & buildings	850,000		780,000	
Less accumulated depreciation	(120,000)	730,000	(110,000)	670,000
Machinery	349,000		230,000	
Less accumulated depreciation	(225,000)	124,000	(165,000)	65,000
		854,000		735,000
Financial Assets				
Quoted investments		60,000		60,000
Current Assets				
Stocks	111,000		135,000	
Debtors	380,000		180,000	
Government securities	60,000			
Bank	75,000		22,000	
Investment income due	3,000		2,000	
	629,000		339,000	
Less Creditors: amounts falling due within 1 year				
Trade creditors	107,000		93,000	
Corporation tax	110,000		45,000	
Interest due	10,000		15,000	
	227,000	402,000	153,000	186,000
		1,316,000		981,000
Financed by				
Creditors: amounts falling due after more than one year				
10% Debentures (€50,000 redeemed on 31/12/2011)		200,000		250,000
Capital and Reserves				
Ordinary shares @ €1 each	800,000		600,000	
Share premium	120,000		100,000	
Profit and Loss account	196,000	1,116,000	31,000	731,000
		1,316,000		981,000

The following information is also available for the year 2011:

(i) Buildings, which cost €90,000 were disposed of at a profit of €13,000.
(ii) There were no disposals of machinery during the year.
(iii) The quoted investments yield a fixed return of 5% per annum.
(iv) The total dividend for the year was 5c per share.
(v) Depreciation charged for the year in arriving at operating profit included €12,000 on buildings.
(vi) Corporation tax due at 31/12/2010 was paid in full.

You are required to:

(a) (i) Prepare an Abridged Profit & Loss account to ascertain the operating profit for the year ending 31/12/2011.

(ii) Prepare the Cash Flow statement for Danton plc for the year ending 31/12/2011, including Reconciliation Statements. (88)

(b) (i) Explain why earning profit does not always result in a corresponding increase in cash balances. Use figures from this question to support your answer.

(ii) Outline **two** responsibilities of the Directors of a plc. (12)

(100 marks)

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

8. Overhead Apportionment and Flexible Budgeting

(a) Heron Ltd has two Production Departments 1 and 2 and two ancillary Service Departments X and Y. The following are the expected overhead costs for the next 6 months:

Overhead	**Total**
	€
Depreciation of equipment	20,000
Depreciation of factory buildings	24,000
Factory heating	8,000
Factory cleaning	4,000
Factory canteen	5,400

The following information relates to the Production and Service Departments of the Factory:

	Production		**Service**	
	Dept. 1	Dept. 2	Dept. X	Dept. Y
Volume in cubic metres	1,000	2,000	600	400
Floor area in square metres	800	600	400	200
Number of employees	140	100	70	50
Book value of equipment	€10,000	€15,000	€9,000	€6,000
Machine hours	4,000	1,000		

You are required to:

(i) Calculate the overhead to be absorbed by each Department stating clearly the basis of apportionment used.
(ii) Transfer the Service Department costs to Production Departments 1 and 2 on the basis of machine hours.
(iii) Calculate a machine hour overhead absorption rate for Departments 1 and 2.
(iv) Explain why it is necessary to transfer Service Department costs to Production Departments 1 and 2.

(b) Mixed costs can be separated into their fixed and variable elements by using records of costs from previous periods. Edant plc manufactures a single component for the motor industry. The following production costs and output levels have been recorded during March, April and May 2011:

Output Levels	60%	80%	90%
Units	12,000	16,000	18,000
Costs	**€**	**€**	**€**
Direct materials	156,000	208,000	234,000
Direct Labour	108,000	144,000	162,000
Production Overheads	79,200	102,000	113,400
Other overhead costs	64,800	85,200	95,400
Administration expenses	30,000	30,000	30,000
	438,000	569,200	634,800

Profit is budgeted to be 20% of sales. **Other overhead costs** can be separated into their fixed and variable elements as follows: **Variable cost per unit is €5.10 and Fixed Cost €3,600**.

You are required to:

(i) Separate production overheads into fixed and variable elements.
(ii) Prepare a Flexible Budget for 95% Activity Level using Marginal Costing principles and show the contribution.
(iii) Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)

9. Cash Budgeting

Din Ltd, a successful retailer is planning to open a new store in a new shopping centre in Cork on 01/07/2012 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	520,000	540,000	610,000	630,000	640,000	660,000	3,600,000
Purchases	220,000	240,000	270,000	280,000	360,000	380,000	1,750,000

(i) The expected selling price is €50 per unit.

(ii) The cash collection pattern from sales/debtors is expected to be:

Cash Customers 40% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 60% of sales revenue will be from credit customers. These debtors will pay their bills 50% in month after sale and the remainder in the second month after sale.

(iii) The cash payments pattern for purchases is expected to be:

Credit Suppliers The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received.
The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

Expected Costs Wages €50,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €60,000 per month payable as incurred.

Capital Cost Equipment costing €54,000 with an estimated useful life of 5 years and no residual value will be purchased on 1 July. This will be partly financed by means of a loan of €48,000 at 6% per annum. The capital sum is to be repaid in 24 equal instalments commencing on 1 August. The interest for each month is to be paid on the last day of the each month based on the amount of the loan outstanding at that date.

Required:

(a) Prepare a cash budget for six months July to December 2012.
(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2012.
(c) What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012?

(80 marks)

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