Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2015

Marking Scheme

Accounting

Higher Level

Note to teachers and students on the use of published marking schemes

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

Question 1

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Trading and Profit and Loss Account for the year ending 31/12/2014 [1]

		€		€		€	
Sales						1,495,000	[3]
Less Cost of Sales							
Stock				74,500	[3]		
Add Purchases	**W 1**			1,066,000	[8]		
				1,140,500			
Less Stock 31/12/2014	**W 2**			(77,000)	[6]	(1,063,500)	
Gross Profit						431,500	
Less Expenses							
Administration							
Patent written off	**W 3**	5,000	[4]				
Salaries and General expenses	**W 5**	231,700	[7]				
Loss on damaged stock	**W 6**	1,000	[3]				
Depreciation – Buildings	**W 7**	14,000	[3]	251,700			
Selling and Distribution							
Depreciation – Delivery van	**W 8**	40,425	[4]				
Loss on sale of van	**W 9**	8,500	[5]				
Bad debts	**W 10**	3,000	[3]				
Advertising		9,600	[3]				
Sales commission	**W 12**	32,600	[3]	94,125			
						(345,825)	
						85,675	
Add Operating Income							
Discount		12,200	[2]				
Reduction in Provision for bad debts	**W 11**	208	[5]			12,408	
Operating profit						98,083	
Investment Income	**W 4**					10,500	[3]
						108,583	
Debenture Interest	**W13**					(32,000)	[3]
Net Profit						76,583	
Less Dividends paid						(25,000)	[2]
Retained Profit						51,583	
Profit and Loss Balance 1/1/2014						(62,200)	[2]
Profit and Loss Balance 31/12/2014						(10,617)	[2]

Balance Sheet as at 31/12/2014

		Cost		Acc.Dep		Net		Total	
Intangible Fixed Assets		**€**		**€**		**€**		**€**	
Patents								20,000	[3]
Tangible Fixed Assets									
Buildings	**W 7**	700,000	[2]	14,000	[1]	686,000			
Delivery Vans	**W 14 & 15**	276,000	[3]	106,925	[3]	169,075			
		976,000		120,925		855,075		855,075	
Financial Assets									
3% Investments								350,000	[2]
								1,225,075	
Current Assets									
Stock						77,000	[2]		
Debtors	**W 16**			94,800	[4]				
Less provision				(3,792)	[1]	91,008			
Insurance Company						5,000	[3]		
Investment income due	**W 9**					5,250	[3]		
VAT	**W 17**					8,000	[3]		
						186,258			
Creditors: amounts falling due within one year									
Creditors				81,100	[2]				
Bank	**W 18**			47,250	[4]				
Commission due				32,600	[2]				
Debenture interest due	**W 13**			16,000	[2]	(176,950)		9,308	
								1,234,383	
Financed by									
Creditors: amounts falling due after more than one year									
8% Debentures								400,000	[2]
Capital and Reserves				**Authorised**		**Issued**			
Ordinary shares @ €1 each				1,100,000		500,000	[1]		
4% Preference shares @ €1 each				400,000		300,000	[1]		
				1,500,000		800,000			
Capital Reserve						45,000	[1]		
Profit and Loss Balance						(10,617)		834,383	
Capital Employed								1,234,383	

Question 1 - workings

1.	Purchases	1,120,000 – 6,000 – 48,000		1,066,000
2.	Closing stock	80,400 – 3,400		77,000
3.	Patents	(21,500 + 3,500) * 5		5,000
4.	Investment income	[350,000 × 3%] =		10,500
	Investment income due	10,500 – 3,500 – 1,750		5,250 (due)
5.	Salaries and general expenses	231,100 + 200 + 400		231,700
6.	Fire Damage Loss	6,000 – 5,000		1,000 (P &L)
7.	Depreciation - Buildings	[713,000 – 13,000] = 700,000 x 2%		14,000
8.	Depreciation - Delivery van	33,000 + 1,125 + 6,300		
		37,500 + 2,925		40,425
9.	Loss on sale of van	30,000 – 8,000 – 13,500		8,500
10.	Bad Debts a/c	4,000 – 1,000		3,000
11.	Reduction in Bad debts provision	4,000 – 3,792		208 (cr)
12.	Sales Commission	595,000 × 3% =	17,850	
		295,000 × 5% =	14,750	32,600
13.	Debenture interest	400,000 × 8%		32,000
	Debenture interest due	32,000 – 16,200 + 200		16,000 (due)
14.	Delivery vans at cost	250,000 + 56,000 – 30,000		276,000
15.	Provision for Dep – vans	80,000 + 40,425 – 13,500		106,925
16.	Debtors	99,200 – 4,000 – 400		94,800
17.	VAT	5,000 – 13,000		8,000 Current Asset
18.	Bank Overdraft	50,000 – 1,750 – 1,000		47,250
	Bank Overdraft	46,690 + 560		47,250

Penalties: One mark each for the omission of two headings in the Profit & Loss Account and Authorised Capital in the Balance Sheet [3 x 1 mark].

Question 2

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Machinery Account

Date	Details	€		Date	Details	€	
01/01/13	Balance **W 1**	190,000	[1]	01/03/13	Disposal No 1	50,000	[1]
01/03/13	Bank - No 4	60,000	[1]	31/12/13	Balance	200,000	
		250,000				250,000	
01/01/14	Balance	200,000		01/04/14	Disposal No 2	65,000	[1]
01/01/14	Bank	4,000	[1]	31/12/14	Balance	196,400	
01/04/14	Bank – No 5	57,400	[1]				
		261,400				261,400	

Provision for Depreciation Account

[1]	Details	€		Date	Details	€	
01/03/13	Disposal No 1 **W 5**	12,667	[3]	01/01/13	Balance **W 2**	27,233	[6]
31/12/13	Balance	33,408		31/12/13	Profit &Loss a/c **W 3**	18,842	[7]
		46,075				46,075	
[1]							
01/04/14	Disposal No 2 **W 6**	15,952	[2]	01/01/14	Balance	33,408	
31/12/14	Balance	36,390	[4]	31/12/14	Profit & Loss a/c **W 4**	18,934	[8]
		52,342				52,342	

Disposal Account

Date	Details	€		Date	Details	€	
01/03/13	Machine No 1	50,000	[1]	01/03/13	Insurance	25,000	[2]
				01/03/13	Scrap allowance	500	[2]
				01/03/13	Depreciation	12,667	[2]
				31/12/13	Profit & Loss a/c	11,833	[1]
		50,000				50,000	
01/04/14	Machine No 2	65,000	[1]	01/04/14	Trade-in allowance	27,500	[2]
				01/04/14	Depreciation	15,952	[2]
				31/12/14	Profit & Loss a/c	21,548	[1]
		65,000				65,000	

(d)

(i) **[4]**

Depreciation is an expense. Depreciation is charged so as to write off the cost of the fixed asset over its useful economic life. Failure to include depreciation in the final accounts will result in the profit being overstated and the net worth being overstated in the Balance Sheet and will not show a true and fair view (true value).

(ii) **[4]**

The factors to be considered when accounting for depreciation are:

- Type of asset
- Estimated life of asset
- Cost of asset
- Scrap value of asset at end of life
- Method of depreciation

<u>**Workings**</u>: **- Depreciation calculations per annum**:

No 1. €50,000 - €2,500 = €47,500 x 10%	Depreciation	=	€4,750
No 2. €65,000 - €3,250 = €61,750 x 10%	Depreciation	=	€6,175
No 3. €75,000 - €3,750 = €71,250 x 10%	Depreciation	=	€7,125
No 4. €60,000 - €3,000 = €57,000 x 10%	Depreciation	=	€5,700
No 5. €57,400 - €2,870 = €54,530 x 10%	Depreciation	=	€5,453
Motor Modification. $\frac{\text{€4,000 x 95\%}}{\text{8 years}}$	Depreciation	=	€ 475

Machine	2010	2011	2012	Total at 1/1/2013	2013	2014	Total
1	2,375	4,750	4,750	11,875	792	Nil	**12,667 W 5**
2		2,058	6,175	8,233	6,175	1,544	**15,952 W 6**
3			7,125	7,125	7,125	7,125	
Modification				-	-	475	
4				-	4,750	5,700	
5				-		4,090	
Totals	**2,375**	**6,808**	**18,050**	**27,233 W 2**	**18,842 W 3**	**18,934 W 4**	

W1 - Balance in Machinery A/c 01/01/2014	=	€50,000 + €65,000 + €75,000	=	€190,000
Balance in Provision A/c 01/01/2013	=	€2,375 + 6,808 + 18,050	=	€27,233
Cost Machine No 5 - 01/04/201	=	€55,000 + 2,000 + 400	=	€57,400

Question 3 **60**

	1/1/2014	Jan	Feb	April	May	July	Nov	Dec	Dec	31/12/2014
Goodwill	45, 000	36,000 [2]								81,000
Land & Buildings	690,000	240,000 [1]		60,000 [2]						990,000
Depreciation - Buildings	(55,100)			55,100 [2]				(16,400) [2]		(16,400)
Equipment	30,000		(4,000) [2]							26,000
Depreciation - Equipment	(2,500)		1,800 [2]							(700)
Delivery Vans	86,000	42,000 [1]				9,000 [2]				137,000
Depreciation – Delivery Vans	(32,000)					12,000 [2]		(26,500) [2]		(46,500)
Stock	73,600						(600) [2]			73,000
Insurance (prepaid)	1,000				3,600 [2]				(3,700) [2]	900 [1]
Debtors	52,900						860 [2]			53,760
	888,900	**318,000**	**(2,200)**	**115,100**	**3,600**	**21,000**	**260**	**(42,900)**	**(3,700)**	**1,298,060**
Liabilities										
Ord. shares	480,000	220,000 [1]								700,000
Share Premium	75,000	44,000 [1]								119,000
Profit & Loss Balance	236,000		300 [1]			1,500 [1]	1,520 [2]	(42,900) [1]	6,880 [1] (3,700) [1]	199,600 [4]
Creditors	82,300	54,000 [1]	(2,500) [2]							133,800
Bank	11,900				(5,000) [2]	19,500 [2]	(1,260) [2]			25,140 [1]
Expenses due	3,700									3,700 [1]
Revaluation Reserve				115,100 [2]						115,100
Rent Receivable					8,600 [2]				(6,880) [2]	1,720 [1]
	888,900	**318,000**	**(2,200)**	**115,100**	**3,600**	**21,000**	**260**	**(42,900)**	**(3,700)**	**1,298,060**

Question 4

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(a)

Statement of Capital 1/1/2014

		€		€	
Assets					
Land & buildings		450,000	[2]		
Machinery		82,000	[2]		
Cattle		60,000	[1]		
Sheep		24,000	[1]		
Milk cheque due		1,800	[1]		
Fuel		620	[1]		
Investments		40,000	[2]		
Investment interest due		300	[1]		
Bank		27,200	[1]	685,920	
Less Liabilities					
Electricity due		330	[1]		
Bank loan		20,000	[2]		
Loan interest due	**W1**	1,400	[3]	(21,730)	
Capital (1/1/2014)				664,190	[2]

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(b)

Enterprise Analysis Account – Cattle and Milk

		€		€
Income				
Sales – Milk	**W2**	28,700	[2]	
Cattle & Calves (14,000 + 6,500)		20,500	[1]	
Single payment cattle		3,500	[1]	
Increase in stock		15,000	[1]	
Drawings by family		750	[1]	68,450
Less Expenditure				
Purchases – Cattle		12,600	[1]	
Dairy wages		2,600	[1]	
General farm expenses		9,940	[1]	
Fertiliser	**W 3**	2,065	[1]	
Veterinary fees	**W 4**	686	[1]	(27,891)
Profit on cattle and milk				40,559

Enterprise Analysis Account –Sheep

		€		€
Income				
Sales – Sheep & Lambs (28,000 + 10,400)		38,400	[1]	
Single payment sheep		2,100	[1]	
Wool		1,400	[1]	
Drawings family		580	[1]	42,480
Less Expenditure				
Decrease in stock		1,000	[1]	
Purchases – sheep		18,500	[1]	
General farm expenses		4,260	[1]	
Fertiliser	**W 3**	885	[1]	
Veterinary fees	**W 4**	294	[1]	(24,939)
Profit on sheep				17,541

(c) **10**

General Profit and Loss Account for the year ended 31/12/2014

Income		**€**		**€**	
Profit – Cattle and Milk		40,559			
– Sheep		17,541			
Investment Interest	**W5**	1,200	[1]		
Forestry premium		1,800	[1]	61,100	
Less Expenditure					
Light, heat and fuel (75%)	**W6**	1,455	[2]		
Repairs (75%)		3,750	[1]		
Machinery Depreciation		6,615	[1]		
Buildings Depreciation		4,125	[1]		
Loan Interest	**W1**	300	[1]	(16,245)	
Net Profit				**44,855**	[2]

(d) **[5]**

Drawings Account

	€		€
Milk	750	Capital	8,245
Lambs	580		
Interest	100		
Light and heat	485		
VHI	1,500		
Repairs	1,250		
Dep. Machinery	2,205		
Dep. Buildings	1,375		
	8,245		8,245

(e) **[5]**

(i) **Purposes of a general Profit & Loss Account**

- Expenses or gains that cannot be allocated directly to the individual farm enterprises are included in this account.
- It is used to ascertain the overall profit or loss of a farm.

(ii) **Advantages of preparing farm enterprise analysis accounts**

This allows better planning and decision making and resources can be diverted elsewhere if necessary.
Preparing farm enterprise analysis accounts allows costs to be allocated to the relevant individual activity within the farm.
The farmer can find the profit/loss on each individual farm activity. The contribution of an individual enterprise towards total profit can be seen.

Workings

1.	Interest for 18 months [6% x 1.5]		=	9%
	109%		=	21,800
	» 9%		=	1,800
	Interest for 2014 Less Drawings [400 – 100]		=	300

2.	Milk sales	29,000	
	Add due 31/12	1,500	
	Less due 1/1	(1,800)	28,700

3.	Fertiliser	2,500	
	Add due 31/12	450	
		2,950	
	70% of 2,950 =		2,065
	30% of 2,950 =		885

4.	Veterinary fees Less VHI [2,480 - 1,500] =	980	
	70% of 980 =		686
	30% of 980 =		294

5.	3% Investment Bond 1,200 × 100 ÷ 3	40,000

6.	Light, heat and fuel	2,210	
	Add stock 1/1	620	
	Less due 1/1	(330)	
	Less stock 31/12	(560)	
		1,940	
	Less drawings (25% of 1,940)	(485)	1,455

Question 5

(a)

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(i) **Opening stock**

$$\frac{\text{Cost of sales}}{\text{Average stock}} = 12$$

$$\text{Average stock} \times 12 = 720{,}000$$

$$\text{Average stock} = \frac{720{,}000}{12}$$

$$\text{Average stock} = 60{,}000$$

Opening stock = (60,000 × 2) less 51,500 = **€68,500** **[12]**

(ii) **Earnings per share**

$$\frac{\text{Net profit after preference dividend}}{\text{Number of ordinary shares}} = \frac{49{,}000}{650{,}000}$$

7.54c **[10]**

(iii) **Dividend Yield**

$$\frac{\text{Dividend per share} \times 100}{\text{Market price}} = \frac{6c \times 100}{95c}$$

6.32% **[12]**

(iv) **Price earnings ratio**

$$\frac{\text{Market price}}{\text{Earnings per share}} = \frac{95c}{7.54c}$$

12.60 years **[8]**

(v) **Interest Cover**

$$\frac{\text{Net profit before interest}}{\text{Debenture Interest}} = \frac{54{,}000 + 14{,}000}{14{,}000}$$

$$= \frac{68{,}000}{14{,}000}$$

4.86 times **[8]**

(b) **40**

Advice concerning the possible purchase of 150,000 shares @ €0.90 per share

[3]

To: Tom Murphy

From: Barry Ryan (Financial consultant)

Date: 15th June 2015

Market Price/value of shares [8]

The share price is on a downward trend. This trend is negative. The shares can be purchased at 90c. This is below the market price of 95c and further below the market price in 2013 of 97c. This is a worrying trend and should **not** be ignored. It indicates a lack of confidence by the stock market. The purchase price may seem good value but one should be cautious and question why such a large block of shares is available. By purchasing 150,000 shares a shareholder would own 23.08% of the company.
The price/earnings ratio is 12.6 years and in 2013 was 10.66 years. This is not very appealing if one is seeking a quick return on investment. It indicates that the period necessary to get ones investment back is getting longer.

Dividend Policy [8]

The dividend yield is 6.32% in 2014 but was 8.25% in 2013.
The dividend cover is 1.26 times in 2014 and in 2013 was 1.14 times. Although the dividend per share has been reduced from 8c in 2013 to 6c in 2014, GJ plc is still paying out too much of its profits in dividends.
In the short term the interest on borrowings of €85,000 [(150,000 x €0.90) – 50,000] would amount to €7,650. The income available from dividends of €9,000 seems favourable when compared to this interest. This annual surplus of €1,350 would need to be compared to the loss of interest which could have been earned on €50,000.
The real return to ordinary shareholders would be 7.94% compared to 9% interest on borrowed money.

Profitability [6]

GJ plc is a reasonably profitable firm. Its ROCE was 8.2% in 2013 and disimproved to 6.97% in 2014. This trend is a cause for concern and if it continues the firm could find itself in a very serious position.
It indicates that the firm is making poor use of its resources.
GJ plc is currently earning 6.97% on Capital employed but paying 7% on €200,000(Debentures) of this investment. Although the ROCE is above the return from risk free investments of 1% to 3%, it leaves little return for risk taking but perhaps it is satisfactory in the current economic climate.
It will take **15** years for the friend to receive back the cost of the shares at the current pay out rate. It will take longer if dividends decline further.

Liquidity[6]

The company has a liquidity problem. The quick ratio in 2013 was 0.90 to 1 but this deteriorated to 0.66 to 1 in 2014. The company has only 66c of liquid assets available to pay every €1 owed in the short term. The deterioration of this ratio indicates difficulty in paying debts and possible future dividends. This would be a worry for both current shareholders and the purchaser of shares as it could result in the company becoming unable to pay dividends even though it had made a profit.

Gearing [6]
GJ plc is a low geared company. Its gearing is 30.77%. Its gearing in 2013 was 28%. This is a worsening situation as the gearing has risen by 2.77% and gives more control to outside investors. If this trend continues they could be at risk from outside investors. However, at the moment there is little risk from outside investors.
The interest cover is 4.86 times and this shows that the company has the ability to meet its interest charges. However the cover has dropped from 6 times in 2013 and this reveals that the profit before interest has dropped from €84,000 in 2013 to €68,000in 2014. If this trend continues there is a risk that the company will not be able to meet its interest charges.

Sector [3]

GJ plc is in the food processing sector. In the short term the sector is under pressure from cheaper imports and shortage of ready cash in the economy.
However, in the long-term the prospects are more encouraging. It is expected that demand for food will increase due to food shortages as world population continues to grow and spending power increases.

Or

Investment Policy and Long-term liabilities.

The investments made by the company cost €110,000. These investments now have a market value of €100,000. This shows poor management of resources although one must take into account the economic downturn globally in 2014. If these investments are sold in the near future there will be a loss of €10,000. This will reduce the real value of the assets and consequently the value of shareholder' funds. The debentures are due to be repaid in 2016. This will require further borrowing or sale of fixed assets.

Recommendations/advice/conclusions:

I would advise you **not** to borrow money to purchase 150,000 shares in GJ plc.

Signature: **Barry Ryan**

(c) **10**

Limitations of ratio analysis **[5]** + **[5]**

It analyses past figures only and these figures are quickly out of date (historical). It merely gives us clues to the future.
Ratios do not show seasonal fluctuations
Firms use different accounting bases and therefore company comparisons are not accurate
Financial Statements give limited pictures of a business.
Financial Statements do not reveal other important aspects of a company
Accounts alone cannot measure aspects which may be extremely significant such as monopoly position, economic climate, staff morale and management/staff relationships.

Question 6

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Abridged Profit and Loss account for the year ending 31/12/2014

	€	
Operating profit	**143,000**	[3]
Less interest	(18,000)	[3]
Profit before tax	125,000	
Taxation	(65,000)	[3]
Profit after tax	60,000	
Dividends	(55,000)	[3]
Retained profit	5,000	
Profit and loss balance 1/1/2014	356,500	[3]
Profit and loss balance 31/12/2014	361,500	[3]

Reconciliation of operating profit to net cash flow from operating activities

		€	
Operating profit		143,000	[2]
Depreciation charge for the year	**W 1**	145,000	[4]
Profit on sale of fixed assets	**W 2**	(5,000)	[2]
Increase in provision for bad debts	**W 3**	3,000	[3]
Increase in stock		(55,000)	[3]
Increase in debtors		(60,000)	[3]
Decrease in creditors		(33,000)	[3]
Net cash inflow from operating activities		**138,000**	

Cash Flow Statement of Quig plc for the year ended 31/12/2014

		€		€	
Operating Activities					
Net cash inflow from operating activities				138,000	[2]
Return on Investment and Servicing of Finance [1]					
Interest paid				(18,000)	[3]
Taxation [1]					
Tax paid	**W 4**			(57,000)	[3]
Capital Expenditure and Financial Investment [1]					
Sale of fixed assets		30,000	[5]		
Purchase of fixed assets	**W 5**	(220,000)	[5]		
Sale of investments		100,000	[4]	(90,000)	
Equity Dividends paid [1]					
Dividends paid				(55,000)	[3]
Net cash outflow before liquid resources and financing				**(82,000)**	
Management of Liquid Resources [1]					
Government securities				(56,000)	[3]
Financing [1]					
Issue of debentures		50,000	[3]		
Issue of ordinary shares		60,000	[2]		
Share premium		15,000	[2]	125,000	
Decrease in Cash				**(13,000)**	[5]

Reconciliation of net cash to movement in net debt	**€**	
Decrease in cash	(13,000)	
Cash used to purchase liquid resources	56,000	**[1]**
Cash received from issue of debentures	(50,000)	**[1]**
Change in net debt	(7,000)	
Net debt at 1/1/2014	(101,000)	**[1]**
Net debt at 31/1/2/2014	(108,000)	**[1]**

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(b) (i) **Purposes of Cash Flow Statements** **[8]**

To show that profits do not always equal cash
To show the cash inflows and outflows during the past year
To help predict future cash flows
To help financial planning
To provide information to assess liquidity/solvency
To comply with legal requirements
To aid application for loans

(ii) **Explain decline in Company's cash balance in 2014** **[4]**

Purchase of fixed assets reduced cash by €220,000 but did not reduce profit.
Purchase of Government securities reduced cash by €56,000 but did not reduce profit
Payment of dividends €55,000 and tax €57,000 reduced cash by €112,000 but did not reduce profit
Increase in stock, debtors and decrease in creditors reduced cash by €148,000 but didn't reduce profit

Question 6 – Workings

W 1 - Depreciation

Depreciation provision on fixed assets 1/1/2014	80,000
Less Depreciation on disposed	(25,000)
55,000	
Add Depreciation charge for the year	**145,000**
Depreciation provision on fixed assets on 31/12/2014	200,000

W 2 - Profit on disposal of fixed assets

Cost of asset disposed	50,000
Less Depreciation on disposed asset	(25,000)
Book value of asset	25,000
Less receipts from sale	30,000
Profit on disposal	**5,000**

W 3 - Provision for Bad Debts

Increase in BDP [8,500 – 5,500] = 3,000

W 4 - Taxation

Taxation due 31/12/2013	47,000
Taxation for year 2014	65,000
	112,000
Less taxation due 31/12/2014	(55,000)
Tax paid	**57,000**

W 5 - Fixed assets 640,000 – [470,000 – 50,000] = 220,000

Question 7

(a) **52**

Trading and Profit and Loss Account for the year ended 31/12/2014

		€		€	
Sales	**W 1**			290,840	[9]
Less Cost of sales					
Opening stock		17,000	[3]		
Purchases (138,400 – 5,200)	**W 2**	133,200	[7]		
		150,200			
Closing stock (16,200 – 5,000)		(11,200)	[5]	(139,000)	
Gross Profit				151,840	
Less Administration expenses					
General expenses	**W 3**	44,000	[5]		
Donation		3,000	[2]		
Insurance	**W 4**	4,050	[7]		
Light and heat	**W 6**	5,385	[7]	(56,435)	
				95,405	
Less Interest	**W 5**			(1,600)	[2]
				93,805	
Add Income from Investment Fund				30	[2]
Net Profit				93,835	[3]

(b) **40**

Balance Sheet as at 31/12/2014

		€		€		€	
Intangible Fixed Assets							
Goodwill						27,700	[3]
Tangible Fixed Assets							
Buildings				270,000	[2]		
Delivery Vans				35,200	[1]		
Furniture	**W 7**			22,500	[2]	327,700	
Financial Assets							
Investment Fund						5,030	[2]
						360,430	
Current Assets							
Stock		11,200	[1]				
Debtors	**W 8**	26,400	[3]				
Bank		50,600	[7]				
Cash		600	[1]				
Prepayments (Insurance)		950	[2]	89,750			
Creditors: **amounts falling due within 1 year**							
Creditors		32,600	[1]				
Interest due	**W 5**	500	[2]				
Electricity due		380	[1]	(33,480)		56,270	
						416,700	
Financed By							
Creditors: **amounts falling due after more than one year**							
Loan						120,000	[2]
Capital				220,000	[2]		
Capital introduced				4,000	[3]		
Net Profit				93,835			
				317,835			
Less Drawings	**W 9**			(21,135)	[5]	296,700	
						416,700	

(c) **8**

The accruals Concept – The accruals concept matches expenses and gains to a specific period. All expenses incurred and income gained in a particular period must be included in the accounts of that period regardless of whether they are paid/received or not e.g electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Advertising prepaid should not be included in the current year's accounts as the payment refers to the following year.
Similarly, all revenue income must be included in the accounts of that period whether received or not. Items sold on credit must be treated as income immediately and not when the money is actually received. **[4]**

Financial Statements are prepared on an accruals rather than on a cash basis. If Financial Statements are not prepared on an accruals basis profits and assets will be overstated or understated for the period covered by the statements because expenses and income included or excluded may refer to a past or future period. **[4]**

Workings

1.	Sales - credit	[34,000 + 26,400 – 18,000)]	42,400	
	Sales - cash	[110,000 + 45,800 + 86,200 + 6,240 + 600 – 400]	248,440	
	Total Sales			290,840
2.	Purchases			
	Credit purchases	[42,100 + 32,600 -22,500]	52,200	
	Cash purchases		86,200	
	Total Purchases		138,400	
	Less drawings of stock		(5,200)	
	Total purchases			133,200
3.	General Expenses	[45,800 – 1,800]		44,000
4.	Insurance	[1,200 + 3,800 – 950]		4,050
5.	Interest	[2,000 – 400]		1,600
	Interest due	[2,000 – 1,500]		500
6.	Light and heat	[6,800 + 380 – 1,795]		5,385
7.	Furniture	[120,000 – 90,000 = 30,000 – 7,500]		22,500
8.	Debtors	[20,400 + 6,000]		26,400
9.	Drawings	[6,240 + 5,200 + 7,500 + 400 + 1,795]		21,135

10. **Bank Account**

Lodgements – sales	110,000	Creditors	42,100
Debtors	34,000	Light and heat	6,800
Dividends	4,000	Interest	1,500
Bank	120,000	Insurance	3,800
		Standing order	3,000
		Delivery van	35,200
		Showroom	90,000
		Furniture	30,000
		Investment fund	5,000
		Balance	**50,600**
	268,000		268,000

Question 8

80

(a) Stock Valuation

(i)

Purchases in units	Unit Cost	Purchases at cost €
4,500	€6	27,000
2,400	€7	16,800
1,400	€6	8,400
2,600	€8	20,800
10,900		**73,000**

Credit Sales Units			€	Cash Sales Units			€	Total Sales Units	€
1,200	@	€10	12,000	1,100	@	€11	12,100	2,300	24,100
2,200	@	€11	24,200	1,400	@	€12	16,800	3,600	41,000
1,400	@	€10	14,000	1,600	@	€13	20,800	3,000	34,800
1,600	@	€11	17,600	1,100	@	€13	14,300	2,700	31,900
6,400			**67,800**	5,200			**64,000**	11,600	**131,800**

Closing Stock in Units = Opening Stock 5,200 + Purchases 10,900 – Sales 11,600 = 4,500 units **[7]**

Closing Stock Valuation:

Units				€	
2,600	@	€8	=	20,800	**[3]**
1,400	@	€6	=	8,400	**[3]**
500	@	€7	=	3,500	**[3]**
4,500				**32,700**	**[4]**

(ii) **Trading Account for the year ended 31/12/2014**

Sales			131,800	**[3]**
Less Cost of sales				
Opening Stock	31,200	**[2]**		
Add Purchases	73,000	**[3]**		
	104,200			
Less Closing Stock	(32,700)	**[2]**	(71,500)	
Gross Profit			60,300	**[4]**

(iii) **[4]**

Implications of an incorrect stock valuation

Incorrect valuation of stock affects:

- The Financial Statements of two years or two accounting periods ie. the closing stock of one accounting period and the opening stock of the next accounting period.
- The figures for cost of sales, gross profit, net profit and subsequently figures in the balance sheet
- In the balance sheet it will affect the figures for current assets and working capital/net assets
- In carrying out ratio analysis the figure for stock will affect the stock turnover, percentage mark-up on cost, gross profit percentage, net profit percentage and the current ratio
- The opinion of the firm in financial circles, its tax liability, its ability to borrow, public opinion and consequently its share price

The mark-up on cost in an industry provides a valuable measure for any firm in that industry.
A mark-up that is out of line with the norm is a cause for concern and should lead to immediate investigation to locate the reason and take remedial action

Stock turnover determines the total volume of profit. Therefore, the higher the better.

(b)

(i)

Production overheads	**Units**	**Total Cost**
		€
High	28,500	140,400
Low	21,000	106,800
Difference	7,500	33,600

The variable cost of 7,500 units is 33,600 therefore the variable cost per unit is **€4.48** **[4]**

Total production overhead cost	106,800	126,960	140,400	
Less variable costs [units × €4.48]	(94,080)	(114,240)	(127,680)	
Therefore, Fixed cost	12,720	12,720	12,720	**[4]**

Other overheads	**Units**	**Total Cost**
		€
High	28,500	95,800
Low	21,000	71,800
Difference	7,500	24,000

The variable cost of 7,500 units is 24,600 therefore the variable cost per unit is **€3.20** **[4]**

Total other overhead cost	71,800	86,200	95,800	
Less variable costs [units × €3.20]	(67,200)	(81,600)	(91,200)	
Therefore, Fixed cost	4,600	4,600	4,600	**[4]**

(ii)

Flexible Budget in Marginal Costing format

		€		€	
Sales				1,202,100	**[3]**
Less: Variable Costs					
Direct Materials	[27,000 × 15.00]	405,000	**[2]**		
Direct Labour	[27,000 × 11.00]	297,000	**[2]**		
Production overheads	[27,000 × 4.48]	120,960	**[2]**		
Other overhead costs	[27,000 × 3.20]	86,400	**[2]**	(909,360)	
Contribution				**292,740**	**[4]**
Less Fixed Costs					
Production overheads		12,720	**[1]**		
Other overheads		4,600	**[1]**		
Administration		35,000	**[1]**	(52,320)	
Profit				240,420	**[2]**

Total cost is 80% of sales.

Total cost is [909,360 + 52,320]	=	961,680
80% of sales	=	961,680
100%	=	1,202,100

(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) **80**

Cash Budget July to December

Receipts	**July**	**August**	**September**	**October**	**November**	**December**	**Total**
Cash sales receipts	79,800 [1]	83,600 [1]	110,200 [1]	112,100 [1]	117,800 [1]	118,750 [1]	622,250
Credit Sales 1 month		168,000 [1]	176,000 [1]	232,000 [1]	236,000 [1]	248,000 [1]	1,060,000
Credit sales 2 months			168,000 [1]	176,000 [1]	232,000 [1]	236,000 [1]	812,000
	79,800	**251,600**	**454,200**	**520,100**	**585,800**	**602,750**	**2,494,250**
Payments							
Purchases 1 month		88,200 [1]	107,800 [1]	127,400 [1]	129,850 [1]	166,600 [1]	619,850
Purchases 2 months			90,000 [1]	110,000 [1]	130,000 [1]	132,500 [1]	462,500
Wages	60,000 [2]	60,000	60,000	60,000	60,000	60,000	360,000
Variable overheads	84,000 [1]	88,000 [1]	116,000 [1]	118,000 [1]	124,000 [1]	125,000 [1]	655,000
Fixed overheads	64,300 [6]	64,300	64,300	64,300	64,300	64,300	385,800
Equipment	42,000 [1]						42,000
Loan repayment		1,000 [1]	1,000	1,000	1,000	1,000	5,000
Interest	180 [1]	175 [1]	170 [1]	165 [1]	160 [1]	155 [1]	1,005
	250,480	**301,675**	**439,270**	**480,865**	**509,310**	**549,555**	**2,531,155**
Net Cash	(170,680) [1]	(50,075) [1]	14,930 [1]	39,235 [1]	76,490 [1]	53,195 [1]	(36,905)
Bank Loan	36,000 [1]						36,000
Opening balance		(134,680) [1]	(184,755)	(169,825)	(130,590)	(54,100)	
Closing balance	(134,680)	(184,755)	(169,825)	(130,590)	(54,100)	(905) [4]	(905)

(b)

Budgeted Profit and Loss Account

		€	€
Sales			3,275,000 [1]
Less Cost of Sales			
Material		1,635,000 [1]	
Labour		360,000 [1]	
Variable overhead		655,000 [1]	
Fixed overhead	[6 × 64,300]	385,800 [1]	(3,035,800)
Gross Profit			239,200
Depreciation – equipment		4,200 [1]	
Discount allowed	[3,275,000 x 20% × 5%]	32,750 [2]	(36,950)
			202,250
Add Discount received	[1,635,000 - 370,000 ÷ 2 × 2%]		12,650 [2]
			214,900
Less interest			(1,005) [2]
Net Profit			**213,895** [2]

(c)

(i) **[4]**

Cash Surplus: This money can be placed in short term investment opportunities in order to gain the most interest. When the company predicts that it will have a cash surplus this allows it to arrange for short-term investment of surplus funds to gain maximum interest. The surplus could be used to pay off any loans or purchase fixed assets

Cash Deficit: The business needs to arrange alternative sources of finance e.g. a bank overdraft to get them over the period of the deficit. When the company predicts that it will experience cash deficits this enables management to arrange for alternative sources of finance, e.g. longer periods of credit or bank overdraft accommodation to cover such deficits.

(ii) **[4]**

Advice

There are serious cash shortages in both July and August.
Retro Ltd should change the credit terms for debtors to encourage more prompt payment for example 6% discount for cash payment in month of sale

Hire equipment instead of buying it to reduce cash expenditure or delay the start date for repayment of loan/repay loan over longer period of time

Agree better credit terms with creditors
Examine variable overheads to see if they can be reduced.
Examine wage bill to see if it can be reduced