AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA M.54

LEAVING CERTIFICATE EXAMINATION 1998

0883

# ACCOUNTING - ORDINARY LEVEL

(400 marks)

WEDNESDAY, 17th JUNE 1998 - MORNING 9.30 a.m. - 12.30 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 TWO other questions**

1. **Final Accounts of a Manufacturing Company**

The following balances were extracted from the books of Warner Ltd., on 31/12/1997.

| | £ | £ |
|---|---|---|
| Share Capital | | |
| Authorised - 700,000 Ordinary Shares at £1 each | | |
| Issued - 450,000 Ordinary Shares at £1 each | | 450,000 |
| Plant and Machinery (Cost 130,000) | 110,000 | |
| Office Equipment (Cost 20,000) | 16,000 | |
| Factory Buildings at cost | 400,000 | |
| Patents | 70,000 | |
| Debtors and Creditors | 31,800 | 41,000 |
| 11% Debentures (issued on 1/4/1997) | | 80,000 |
| Purchases of Raw Materials | 330,000 | |
| Sales | | 522,000 |
| Wages | 60,000 | |
| Stocks 1/1/1997 | | |
| Raw Materials | 25,000 | |
| Work in progress | 24,000 | |
| Finished Goods | 39,000 | |
| Profit and Loss Balance 1/1/1997 | | 23,000 |
| Returns in | 2,000 | |
| Stationery | 2,200 | |
| Provision for Bad Debts | | 1,600 |
| Sale of Scrap Materials | | 8,000 |
| Directors Fees | 26,000 | |
| Showroom Expenses | 6,800 | |
| Factory Insurance | 4,800 | |
| Factory Light and Heat | 9,200 | |
| VAT | | 5,500 |
| Bank | | 25,700 |
| | 1,156,800 | 1,156,800 |

You are given the following additional information:-

(i) Stocks at 31/12/1997:
  Raw Materials; £28,000
  Work-in-progress £33,000
  Finished Goods. £43,000
(ii) Wages are to be divided - 80% for direct wages and 20% for supervisor's wages.
(iii) Depreciation is to be provided as follows:
  Plant and Machinery - 20% of cost.
  Office Equipment - 10% of book value.
  Buildings - 2% of cost.
(iv) Provision should be made for Debenture Interest due.
(v) Factory Insurance was for the year ended 31/3/1998.
(vi) Finished Goods are to be transferred from factory at £480,000.

**You are required to prepare a:**

(a) Manufacturing Account for the year ended 31/12/1997 (40)
(b) Trading and Profit and Loss Account for the year ended 31/12/1997 (40)
(c) Balance Sheet as at 31/12/1997. (40)

(120 marks)

2. **Debtors' and Creditors' Control Accounts.**

The following figures were taken from the books of M. Wylie during March 1998:

| | £ |
|---|---|
| Debtors Ledger Balance 1/3/1998 | 64,800 |
| Creditors Ledger Balance 1/3/1998 | 57,500 |
| Returns Out | 2,800 |
| Discount Allowed | 1,500 |
| Discount Received | 1,950 |
| Returns In | 1,700 |
| Bills Payable Accepted | 2,100 |
| Bills Receivable Issued | 4,300 |
| Purchases (including Cash Purchases £8,400) | 88,400 |
| Sales (including Cash Sales £25,500) | 125,500 |
| Discount disallowed to M. Wylie | 510 |
| Interest charged by Wylie on overdue accounts | 170 |
| Cash paid to suppliers | 55,000 |
| Cheques received from customers | 72,400 |
| Cheques received dishonoured | 700 |
| Bad Debts written off | 270 |
| Transfer from Debtors Ledger to Creditors Ledger | 650 |
| Debtors Ledger Credit Balance at 31/3/1998 | 330 |
| Creditors Ledger Debit Balance at 31/3/1998 | 420 |

**You are required to:**
Prepare a Debtors' Ledger Control Account and a Creditors' Ledger Control Account for March 1998. **(60 marks)**

3. **Farm Accounts**

The Williams family carry on a mixed farming business. The following is a summary of the receipts and payments of the farm for the year ended 31/12/1997.

**RECEIPTS** **PAYMENTS**

| Details | Cattle & milk Sales | Sheep Sales | Gov. Grants | Total | Details | Cattle | Sheep | Sundry Exp. | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | £ | | | | | £ |
| Balance b/d | | | | 1,600 | Feeding - sheep | | 800 | | 800 |
| Milk | 15,000 | | | 15,000 | General Wages | | | 1,800 | 1,800 |
| Sheep | | 12,000 | | 12,000 | Rent - conacre | | | 1,170 | 1,170 |
| Beef Premium | | | 1,800 | 1,800 | Dairy wages | | | 600 | 600 |
| Cows | 7,000 | | | 7,000 | Cows | 14,000 | | | 14,000 |
| Calves | 3,400 | | | 3,400 | Repairs & Fuel | | | 3,400 | 3,400 |
| Ewe premium | | | 3,600 | 3,600 | Sheep | | 2,200 | | 2,200 |
| Wool | | 600 | | 600 | Light & Heat | | | 890 | 890 |
| | | | | | Drawings | | | 7,000 | 7,000 |
| | | | | | Fertiliser | | | 2,300 | 2,300 |
| | | | | | Contractor costs | | | 4,400 | 4,400 |
| | | | | | Feeding - cattle | 4,600 | | | 4,600 |
| | | | | | Haulage | | | 400 | 400 |
| | 25,400 | 12,600 | 5,400 | 45,000 | **Total Paid** | 18,600 | 3,000 | 21,960 | 43,560 |
| | | | | | **Balance c/d** | | | | 1,440 |
| | | | | 45,000 | | | | | 45,000 |
| Balance b/d | | | | 1,440 | | | | | |

The following information is also available:

| | | Cattle | Sheep |
|---|---|---|---|
| (i) | Value of livestock at cost on 1/1/1997 was | £85,000 | £38,000 |
| | Value of livestock at cost on 31/12/1997 was | £87,000 | £39,000 |

(ii) Milk used by family during year £660
(iii) Lamb used by family during year £220
(iv) General wages, haulage and rent to be allocated equally between the two enterprises

**You are required to:**
(a) Prepare Enterprise Analysis Accounts for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/1997. (30)
(b) Prepare a general Profit and loss account for the year ended 31/12/1997. (30)
**(60 marks)**

## 4. Incomplete Records - net worth

M. Wagner, a sole trader, has not been keeping a full set of accounts. The following figures relating to the business were supplied on 1/1/1997:

| | 1/1/1997 £ |
|---|---|
| Stock | 17,500 |
| Debtors | 24,600 |
| Insurance prepaid | 1,800 |
| Premises | 95,000 |
| Furniture and Equipment at cost | 12,000 |
| Motor Vehicles at book value | 19,200 |
| Accumulated Depreciation on Furniture and Equipment | 3,000 |
| Creditors | 21,600 |
| Expenses due | 300 |
| Bank Overdraft | 8,400 |

Wagner also supplied the following additional information on 31/12/1997:

(i) During the year £7,500 was transferred from a personal bank account to the business bank account.

(ii) During the year, Wagner had paid £2,000 out of business funds for private house repairs and also had taken goods to the value of £5,200 for private use.

Wagner estimated that on 31/12/1997 the business assets and liabilities were £180,000 and £23,000 respectively before allowing for depreciation on Furniture and Equipment at the rate of 20% of cost, depreciation on Motor Vehicles at the rate of 20% of book value and before allowing for expenses due £500.

**You are required to:**

(a) Prepare a statement showing Wagner's net Worth/Capital on 1/1/1997 **(20)**

(b) Prepare a statement showing Wagner's Profit or Loss for the year ended 31/12/1997 **(40)**

**(60 marks)**

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

## 5. Interpretation of Accounts

The following information has been taken from the accounts of Woods Ltd for the year ended 31/12/1997.

**Trading Profit and Loss Account for year ended 31/12/1997**

| | | |
|---|---|---|
| Credit Sales | | 500,000 |
| *Less* Cost of Sales | | |
| Stock 1/1/1997 | 40,000 | |
| Purchases | ? | |
| | ? | |
| *Less* Stock 31/12/1997 | 50,000 | ? |
| Gross Profit | | 100,000 |
| *Less* Total Expenses | | 36,000 |
| Net Profit | | 64,000 |

**Balance Sheet as at 31/12/1997**

| | £ | £ |
|---|---|---|
| **Fixed Assets** | | 250,000 |
| **Current Assets** (including Debtors £36,000) | 86,000 | |
| *Less* **Creditors:** amounts falling due within 1 year. | | |
| Trade creditors | 60,000 | 26,000 |
| | | 276,000 |
| **Financed By** | | |
| **Creditors:** amounts falling due after more than 1 year | | |
| 12% Debentures (2005/2007). | | 80,000 |
| **Capital and Reserves** | | |
| Ordinary Shares | | 132,000 |
| Profit and loss account | | 64,000 |
| | | 276,000 |

(a) **You are required to:**
1. Calculate the Purchases.
2. Calculate the Stock Turnover.
3. Calculate the Period of Credit given to Debtors.
4. Calculate the Acid Test Ratio. **(40)**

(b) **Explain the following:**
1. 12% Debentures (2005/2007).
2. Preference Dividend.
3. Return on Capital Employed.
4. Shareholders Funds. **(40)**

(c) Would the above firm have difficulty paying its bills as they fall due? Give reasons for your answer. **(10)**

(d) If the return on capital employed for 1996 was 13% comment on the current profitability of the firm. **(10)**

**(100 marks)**

**6. Club Accounts**

Included in the assets and liabilities of the 'Tones' hurling club on 1/1/1997 were the following:
Clubhouse £280,000; Equipment £6,000; Investments £10,000; Bar Stock £700; Membership Subscriptions due £300; Bar Creditors £900; Expenses due £1,850.

The following is a summary of the club's Receipts and Payments for the year ended 31/12/1997:

| **Receipts** | **£** | **Payments** | **£** |
|---|---|---|---|
| Cash in Hand - 1/1/1997 | 1,500 | Bar Purchases for cash | 26,000 |
| Interest | 600 | Purchase of Equipment | 2,600 |
| Subscriptions | 2,350 | General Expenses | 13,600 |
| Bar sales | 42,100 | Cake sale costs | 520 |
| Cake sale Receipts | 3,920 | Bar Creditors | 2,800 |
| Donations | 1,200 | Cash Balance - 31/12/1997 | 6,150 |
| | 51,670 | | 51,670 |

The treasurer also supplied the following information as at 31/12/1997:

(i) Bar Stock was £850.
(ii) Bar Creditors were £560.
(iii) Expenses prepaid were £200.
(iv) Subscriptions prepaid were £450.
(v) Equipment held on 31/12/1997 to be depreciated by 25%.
(vi) Depreciate Clubhouse at 2% of cost.

**You are required to:**

(a) Prepare a statement showing the Club's Accumulated Fund on 1/1/1997. **(20)**
(b) Prepare the Club's Income and Expenditure Account for the year ended 31/12/1997. **(40)**
(c) Prepare the Club's Balance Sheet on 31/12/1997. **(30)**
(d) Explain the difference between the balance in the Income and Expenditure Account and the closing balance in the Receipts and Payments Account. **(10)**

**(100 marks)**

## 7. Cash Flow Statement

The following information has been extracted from the books of Watson Ltd:

**Profit and Loss Extract for year ended 31/12/1997**

| | £ |
|---|---|
| Operating profit | 111,000 |
| Interest paid | (4,000) |
| | 107,000 |
| Taxation | (30,000) |
| | 77,000 |
| Proposed dividend | (37,000) |
| Retained profits for year | 40,000 |
| Profit and loss balance 1/1/1997 | 70,000 |
| Profit and loss balance 31/12/1997 | 110,000 |

| **Balance Sheets as at** | | **31/12/1997** | | **31/12/1996** |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Fixed Assets** | | | | |
| Land & Buildings | 500,000 | | 400,000 | |
| *Less* Depreciation Provision | 80,000 | 420,000 | 70,000 | 330,000 |
| **Current Assets** | | | | |
| Stock | 110,000 | | 90,000 | |
| Debtors | 40,000 | | 32,000 | |
| Cash | 7,000 | | 12,000 | |
| | 157,000 | | 134,000 | |
| *Less* **Creditors:** amounts falling due within 1 year | | | | |
| Creditors | 10,000 | | 48,000 | |
| Taxation | 30,000 | | 14,000 | |
| Proposed dividend | 37,000 | | 12,000 | |
| | (77,000) | | (74,000) | |
| **Net Current Assets** | | 80,000 | | 60,000 |
| **Total Net Assets** | | 500,000 | | 390,000 |
| | | | | |
| **Financed by** | | | | |
| **Creditors:** amounts falling due after more than 1 year | | | | |
| 10% Debentures | | 20,000 | | 70,000 |
| **Capital and Reserves** | | | | |
| Ordinary Share Capital issued | | 370,000 | | 250,000 |
| Profit & Loss Account | | 110,000 | | 70,000 |
| | | 500,000 | | 390,000 |

**You are required to:**

**(a)** Reconcile the operating profit to net cash inflow from operating activities. **(30)**

**(b)** Prepare the cash flow statement of Watson Ltd for the year ended 31/12/1997 under the following headings:

(i) Operating activities.

(ii) Return on investment.

(iii) Taxation.

(iv) Investing activities.

(v) Financing. **(70)**

**(100 marks)**

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

## 8. Costing: Cost-Volume-Profit (Marginal Costing)

Leinster Ltd, manufactures a product which it sells at £15 per unit. All goods produced are sold immediately so there is never any stock of product on hand. A costing analysis reveals that:

Variable costs amount to £8 per unit
Fixed costs will be £5,000 for the period.

**You are required to:**

(a) Calculate the contribution for each item sold. (10)
(b) Calculate the break even volume in units for this product using the data above. (10)
(c) Prepare a marginal costing statement to show the Profit/Loss at the following production levels:

1. 600 units.
2. 1,200 units.
3. 1,010 units.
4. 1,600 units. (20)

(d) Calculate the level of production and the sales revenue that will yield a profit of £7,000. (20)
(e) Calculate the Margin of Safety in units and punts in (d) above. (20)
**(80 marks)**

## 9. Cash Budgeting

S. Winter had the following Assets, Liabilities and Capital at 1 Jan 1997:

| | |
|---|---|
| **Assets** | **£** |
| Fixed assets | 70,000 |
| Stock | 6,600 |
| Debtors | 26,000 |
| Cash | 1,200 |
| | 103,800 |
| **Liabilities** | |
| Creditors | 23,800 |
| **Capital** | 80,000 |

**The expected sales and purchases for the next 5 months are as follows:**

| | Jan | Feb | Mar | April | May | Total |
|---|---|---|---|---|---|---|
| Sales | £60,000 | £58,000 | £65,000 | £75,000 | £66,000 | £324,000 |
| Purchases | £41,000 | £40,000 | £47,000 | £52,400 | £59,000 | £239,400 |

All sales are on credit and are paid for one month after sale.
All purchases are on credit except for £18,000 in May and are paid for one month after sale.
Winters rents the premises for £7,200 per annum payable each month.
Wages to be £4,800 per month.
Equipment bought in May for £6,000.
Closing stock at 31/5/1997 is expected to be £14,600.
Net profit for 5 months is expected to be £65,600.

**You are required to prepare:**
(a) A Cash Budget showing Winter's expected monthly receipts and payments for the five months January to May, 1997. (50)
(b) A Budgeted Balance Sheet as at 31/5/1997. (30)
**(80 marks)**