LEAVING CERTIFICATE ACCOUNTING

MARKING SCHEME FOR THE 2002 EXAMINATION

INTRODUCTION

The solutions and marking schemes for Accounting, Higher and Ordinary levels, are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in a circle like this 6 alongside. These marks are then totalled for each section/page and shown in a square like this $\boxed{40}$.

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong 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 (eg 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.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where their calculation in Section (a) is incorrect, but this inaccurate information is used in the answer to Section (b), examiners give credit for analysis/decisions correctly made by the candidate on the basis of the incorrect data in this section. In this way, candidates are not penalised twice for the same error.

Accounting - Ordinary Level 2002

Question 1

(a) 40

Manufacturing Account for the year ended 31/12/2001

		€
Stock - Raw material 1/1/2001		35,000 ❸
Add Purchases - Raw materials		430,000 ❷
		465,000
Less Stock - Raw materials 31/12/2001		32,000 ❸
Cost of raw materials used		433,000
Add Direct wages (€70,000 x 80%)	56,000 ❹	
Direct Expenses	10,000 ❷	66,000
PRIME COST		499,000
Factory Overhead Expenses		
Supervisors wages (€70,000 x 20%)	14,000 ❹	
Factory Insurance (€6,600 - €1,650)	4,950 ❹	
Factory Light and heat	9,500 ❷	
Depreciation - Plant and machinery	34,000 ❸	
- Buildings	9,400 ❸	71,850
		570,850
Work - in progress 1/1/2001		27,000 ❸
		597,850
Less Work - in progress 31/12/2001		38,000 ❸
		559,850
Less Sale of scrap materials		6,000 ❸
Cost of manufacture		553,850 ❶
Manufacturing profit		26,150
Market value of manufactured goods		580,000

Question 1 - (continued)

(b) 40

Trading and Profit and Loss Account for the year ended 31 December 2001

	€	€	€
Sales less returns in (€642,000 - €2,000)			640,000 ❻
Less Cost of sales			
Stock 1/1/2001		42,000 ❹	
Add Manufacturing account		580,000 ❷	
		622,000	
Less Stock 31/12/2001		47,000 ❹	575,000
Gross profit			65,000 ❶
Manufacturing profit			26,150 ❶
			91,150
Less Expenses			
Administration			
Stationery	1,600 ❸		
Directors fees	30,000 ❸	31,600	
Selling and Distribution			
Advertising expenses	8,800 ❸		
Depreciation – Delivery Vans	1,800 ❸	10,600	42,200
Operating profit			48,950
Less Debenture interest			6,000 ❻
Net profit for year			42,950 ❶
Profit and loss balance 1/1/2001			21,000 ❷
Profit and loss balance carried forward 31/12/2001			63,950 ❶

(c) $\boxed{40}$

Balance Sheet at 31 December 2001

	Cost	Accumulated Depreciation	Net	Total
Intangible fixed assets	€	€	€	€
Patents				60,000❷
Tangible fixed assets				
Buildings	470,000❷	9,400❶	460,600	
Plant and machinery	170,000❷	84,000❸	86,000	
Delivery Vans	24,000❷	7,800❸	16,200	
	664,000	101,200	562,800	562,800
				622,800
Current assets				
Stock - Raw materials			32,000❶	
- Work -in - progress			38,000❶	
- Finished goods			47,000❶	
Insurance prepaid			1,650❸	
Trade debtors		36,800❸		
Less Provision		1,500❷	35,300	
			153,950	
Creditors: amounts falling due within one year				
Trade creditors		44,000❷		
Debenture interest due		6,000❷		
Bank		27,700❷		
VAT		5,100❸	82,800	
Working capital				71,150
				693,950
Financed by				
Creditors: amounts falling due after more than one year				
11% Debentures				80,000❷
Capital and reserves		**Authorised**	**Issued**	
Ordinary shares at €1 each		800,000	550,000❷	
Profit and loss account			63,950❶	613,950
Capital employed				693,950

Question 2

(a) 35

Adjusted Bank Account

	€		€
Balance b/d	2,288❻	Dishonoured cheque - J. Foley	230❻
Interest received	120❻	Bank Charges	33❻
		Standing Order	320❻
		Balance c/d	1,825❺
	2,408		2,408
Balance b/d	1,825		

(b) 25

Bank Reconciliation Statement

			€
Balance as per Bank Statement			275❸
Add Unrecorded Lodgements			1,750❺
			2,025
Less Cheques not presented	No 567894	220❹	
	No 567897	140❹	360
			1,665
Add Bank error - Mick Thompson			160❼
Balance as per adjusted Bank account			1,825❷

Alternative (b)

Bank Reconciliation Statement

			€
Balance as per adjusted Bank account			1,825❷
Add Cheques not presented	No 567894	220❹	
	No 567897	140❹	360
			2,185
Less Unrecorded Lodgements			1,750❺
			435
Less Bank error - Mick Thompson			160❼
Balance as per Bank Statement			275❸

Question 3

(a) 20

Statement of Capital at 1 January 2001

	€	€
Assets		
Stocks	33,300❷	
Debtors	27,600❷	
Insurance prepaid	1,500❷	
Premises	350,000❷	
Furniture and equipment (€22,000 - €6,600)	15,400❹	
Motor vehicles	27,200❷	455,000
Less Liabilities		
Creditors	31,600❷	
Expenses due	1,600❷	
Bank overdraft	11,500❷	44,700
Capital /Net Worth at 1/1/2001		410,300

(b) 40

Statement of Profit or Loss for year ended 31 December 2001

	€	€
Assets at 31 December 2001		490,000❹
Less Liabilities and expenses not recorded	27,000❹	
Depreciation – Furniture & Equipment	4,400❹	
Depreciation – Motor Vehicles	5,440❹	
Expenses due	800 ❹	37,640
Net worth 31/12/2001		452,360
Less Capital / Net worth at 1 January 2001		410,300❷
Increase in net worth		42,060
Add Drawings		
House repairs	1,500❺	
Goods	7,200❺	8,700
		50,760
Deduct		
Capital introduced		15,000❹
Net Profit for year		35,760❹

Question 4

15

Buildings Account ❷

		€			€
01/01/2000	Balance b/d	300,000❸	01/04/2000	Disposal	90,000 ❹
01/04/2000	Bank	140,000❸	31/12/2000	Balance c/d	350,000
		440,000			440,000
01/01/2001	Balance b/d	350,000			
01/01/2001	Rev. Reserve	50,000❷	31/12/2001	Balance c/d	400,000 ❶
		400,000			400,000
01/01/99	Balance b/d	400,000			

(b)

20

Provision for Depreciation on Buildings Account ❷

		€			€
01/04/2000	Disposal	9,000❸	01/01/2000	Balance b/d	45,000❸
31/12/2000	Balance c/d	42,750	31/12/2000	Profit & Loss	6,750❸
		51,750			51,750
01/01/2001	Rev. Reserve	42,750❺	01/01/2001	Balance b/d	42,750
31/12/2002	Balance	8,000❶	31/12/2001	Profit & Loss	8,000❸
		50,750			50,750
			01/01/2002	Balance b/d	8,000

(c)

15

Disposal of Buildings Account ❷

		€			€
01/04/2000	Buildings	90,000❷	01/04/2000	Provision –Depr.	9,000❹
31/12/2000	Profit & Loss	79,000❸	01/04/2000	Bank	160,000❹
		169,000			169,000

(d)

10

Revaluation Reserve Account

		€			€
			01/01/2001	Buildings	50,000 ❺
31/12/2001	Balance c/d	92,750	01/01/2001	Depreciation	42,750❺
		92,750			92,750
			01/01/2002	Balance b/d	92,750

Question 5

(a) **40**

Purchases

Cost of Sales = Sales - Gross Profit = €530,000

Purchases = Cost of Sales + Closing Stock - Opening Stock

= 530,000 + 60,000 - 58,000 = **€532,000** ⑩

Return on Capital Employed

$\frac{\text{Operating Profit}}{\text{Capital Employed}} = \frac{84{,}500 \times 100}{390{,}000} =$ **21.7%** ⑩

Period of credit given to debtors

$\frac{\text{Debtors} \times 365}{\text{Cr. Sales}} = \frac{55{,}000 \times 365}{660{,}000} =$ **1 Month** ⑩ **30 Days**

Acid Test Ratio

$\frac{\text{Current Assets (less stock)}}{\text{Current Liabilities}} = \frac{56{,}000}{66{,}000} =$ **0.85 to 1** ⑩

(b) **40**

10% Debentures (2005/2007) ⑩

Debentures are long-term loans carrying a fixed annual rate of interest (10%). The repayment date in one lump sum is between the years 2005 to 2007. The Debenture may be secured by a floating or a fixed charge on the firm's fixed assets. The rate of interest per annum is 10%

Preference Dividend ⑩

This is the portion of profits paid to Preference shareholders. It is a fixed percentage and must be paid before the ordinary dividend. Preference shareholders are not the owners of the company, they are a source of finance only. If a dividend is not paid in any year it accumulates and is paid when profits are available.

Rate of Stock Turnover ⑩

This is the number of times during the year that the average stock is sold. The higher this figure is the better. It is calculated by dividing the Cost of Sales by the average Stock.

Shareholders Funds ⑩

This is the total financial interest of the shareholders in the company. It consists of issued share capital plus reserves.

(c) **10**

It would be able to pay its debts but with difficulty because as the Acid Test Ratio is only 0.85 to :1. This means that for every €1 owed to short term creditors, the company has 85c available from current assets, excluding stock.

(d) **10**

The return on capital employed in 2001 was 21.7%. This is well above last year's return of 13% and about four times the return from risk free investments. Therefore Tyndall Ltd is a highly profitable firm

Question 6

(a) 20

Accumulated Fund on 31/12/2001

	€	€
Assets		
Clubhouse and hall	360,000 ❷	
Equipment	8,000 ❷	
Investments	16,000 ❷	
Bar stock	1,400 ❷	
Subscriptions due	400 ❸	
Cash in hand	2,200 ❸	388,000
Less Liabilities		
Bar creditors	1,000 ❷	
Expenses due	2,400 ❷	(3,400)
Accumulated fund		384,600❷

(b) 40

Income and Expenditure Account for the year ended 31/12/2001

		€	€
Income			
Bar profit	**W 1**	28,050❽	
Membership fees	**W 2**	6,400❻	
Interest		800❷	
Profit on cake sale	**W 3**	2,260❸	
Donations		1,200❷	
Sponsorship		18,000❷	56,710
Less Expenditure			
General expenses	**W 4**	45,550❻	
Depreciation - equipment		2,800❹	
- clubhouse		7,200❹	55,550
Excess of income over expenditure			1,160❸

30

(c)

Balance Sheet as at 31/12/2001

	Cost	Agg Dep	NBV
	€	€	€
Fixed Assets			
Clubhouse	360,000❸	7,200❷	352,800
Equipment	11,200❸	2,800❷	8,400
	371,200	10,000	361,200
Investments			16,000❷
			377,200
Current Assets			
Stock	1,800❸		
Expenses prepaid	350❸		
Cash	8,860❸	11,010	
Less: Creditors: amounts falling due within 1 year			
Bar creditors	1,650❸		
Membership fees prepaid	800❸	2,450	8,560
			385,760
Financed by			
Accumulated 1/1/2001		384,600❷	
Add excess of income		1,160❶	385,760
			385,760

(d) The balance in the Receipts and Payments Account merely shows the amount of cash left over on the last day of the period covered by the account. An organisation could have cash on hand but still have unpaid bills in excess of the cash balance. ❹

The balance in the Income and Expenditure Account represents the surplus of income or excess of expenditure for the period covered by the account. It indicates whether an organisation is receiving enough income to cover its expenses for the period. ❻

Workings

		€
1 Bar Trading Account		
Sales		66,400
Less cost of sales		
Stock 1/1/2001	1,400	
Purchases (36,000 + 1,650 + 2,100 - 1,000)	38,750	
	40,150	
Less stock 31/12/2001	1,800	38,350
Bar profit		28,050

2 Membership Fees		
Amount received	7,600	
Less amount prepaid 31/12/2001	(400)	
Less Amount due 1/1/2001	(800)	6,400
3 Profit on cake sale		
Receipts	2,700	
Less payments	(440)	2,260
4 General expenses		
Receipts	48,300	
Less Expenses due 1/1/2001	(2,400)	
Less Expenses prepaid 31/12/2001	(350)	45,550

Question 7

(a) **30**

Reconciliation of operating profit to net cash flow from operating activities:

		€	€
Operating profit			113,000❸
Depreciation charges for year	**W 1**		7,000❻
Increase in stocks			(22,000)❻
Increase in debtors			(15,000)❻
Increase in creditors			13,000❻
Net cash inflow from operating activities			96,000❸

(b) **70**

Cash Flow Statement of Tarpey Ltd for the year ended 31/12/2001

	€	€
Operating Activities		
Net cash inflow from operating activities		96,000 ❺
Returns on investments and servicing of finance ❷		
Interest paid		(7,000) ❽
Taxation ❷		
Corporation tax paid		(24,000) ❽
Capital expenditure and financial investment ❷		
Payments to acquire tangible fixed assets		(110,000) ❽
Equity dividends paid ❷		
Dividends paid during the year		(30,000) ❽
Net cash outflow before financing		(75,000)
Financing ❷		
Issue of Debentures	30,000❽	
Issue of shares	40,000❽	70,000
Decrease in cash ❸		**(5,000)**

Reconciliation of net cash flow to movement in net debt

Decrease in cash during period	(5,000)❶
Cash received from Issue of debentures	(30,000)❶
Change in net debt	(35,000)
Net debt at 1/1/2001	(59,000)❶
Net Debt at 31/12/201	(94,000) ❶

Workings

(1) Depreciation

Total depreciation at the end of the year	80,000
Less total depreciation at beginning of year	(70,000)
Depreciation for year	10,000

Question 7

Alternative Method (old)

(a) $\boxed{30}$

Reconciliation of operating profit to net cash flow from operating activities:

		€	€
Operating profit			113,000❸
Depreciation charges for year	W 1		7,000❻
Increase in stocks			(22,000)❻
Increase in debtors			(15,000)❻
Increase in creditors			13,000❻
Net cash inflow from operating activities			96,000❸

(b) $\boxed{70}$

Cash Flow Statement of Tarpey Ltd for the year ended 31/12/2001

		€	€
Operating Activities ❷			
Net cash inflow from operating activities			96,000 ❺
Returns on investments and servicing of finance ❷			
Interest paid		(7,000)❽	
Dividends paid during the year		(30,000)❽	(37,000)
Taxation ❷			
Corporation tax paid			(24,000) ❽
Investing activities ❷			
Payments to acquire tangible fixed assets			(110,000) ❽
Net cash outflow before financing ❹			(75,000)
Financing ❷			
Issue of Debentures		30,000❽	
Issue of shares		40,000❽	70,000
Decrease in cash	❸		(5,000)

Workings

(1) Depreciation

Total depreciation at the end of the year	80,000
Less total depreciation at beginning of year	(70,000)
Depreciation for year	10,000

Question 8

80

(a) Overhead absorption rate per machine hour

$$\text{Machine hour rate} = \frac{\text{Budgeted factory overheads}}{\text{Budgeted machine hours}} = \frac{56{,}000}{14{,}000} = €4$$ 15

(b) Overhead absorption rates per direct labour hour

$$\text{Direct labour hour rate} = \frac{\text{Budgeted factory overheads}}{\text{Budgeted direct lab. hours}} = \frac{56{,}000}{8{,}000} = €7$$ 15

(c) Total Cost of Order no – 1014

		Machine Hour Rate
Direct Material		9,000.00 2
Direct Labour (Note 1)		962.50 5
Factory Overheads	(310 Machine hours @ €4)	1,240.00 5
Total Cost		**11,202.50** 3

(d) Total Cost of Order no - 1014

		Direct Labour Hour Rate
Direct Material		9,000.00 2
Direct Labour (Note 1)		962.50 5
Factory Overheads	(220 Direct labour hrs @ €7)	1,540.00 5
Total Cost		**11,502.50** 3

(e)

			€	€
Total Cost			11,202.50	11,502.50
Mark-up	=	20% of cost	2,240.50	2,300.50
Selling Price	=		**13,443.00** 10	**13,803.00** 10

Note 1

$$\frac{\text{Budgeted Direct Labour}}{\text{Budgeted Direct labour hours}} = \frac{35{,}000}{8{,}000 \text{ hours}} = €4.375 \text{ per hour}$$

Direct labour cost of Order no - 1014 = 220 hours @ €4.375 = €962.50

Question 9

80

(a)

Budgeted Cash Receipts	**Jan**	**Feb**	**Mar**	**April**	**May**	**Total**
Debtors	44,000❷	80,000❷	75,000❷	85,000❷	95,000❷	379,000
Total	**44,000**	**80,000**	**75,000**	**85,000**	**95,000**	**379,000**
Budgeted Cash Payments						
Purchases	57,000❷	55,000❷	58,000❷	64,000❷	77,000❹	311,000
Rent	1,000❹	1,000❶	1,000❶	1,000❶	1,000❶	5,000
Equipment					7,000❷	7,000
Wages	5,000❶	5,000❶	5,000❶	5,000❶	5,000❶	25,000
Total	**63,000**	**61,000**	**64,000**	**70,000**	**90,000**	**348,000**
Net Cash	(19,000)❷	19,000❷	11,000❷	15,000❷	5,000❷	31,000
Opening Cash	2,200❷	(16,800)	2,200	13,200	28,200	2,200
Closing Cash	**(16,800)**	**2,200**	**13,200**	**28,200**	**33,200**❶	**33,200**

(b) **Budgeted Balance Sheet at 31/5/2002**

	Cost	**Depreciation**	**Net**
Fixed Assets			
Fixed assets			240,000 ❸
Equipment			7,000 ❹
			247,000
Current Assets			
Stock		18,800❹	
Debtors		100,000❹	
Cash		33,200❸	
		152,000	
Less Creditors: amounts falling due within 1 year			
Trade creditors		55,000❺	
Net Current Assets			97,000
			344,000
Financed by			
Capital			246,000 ❸
Add Net Profit			98,000 ❹
			344,000