Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2008

A C C O U N T I N G - O R D I N A R Y L E V E L

(400 marks)

TUESDAY, 17 JUNE, 2008 – AFTERNOON, 2.00 p.m. to 5.00 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 any **TWO** other questions

1. Final Accounts of a Manufacturing Company

The following balances were extracted from the books of Casey Ltd. on 31/12/2007.

	€	€
Share Capital		
Authorised - 800,000 Ordinary shares at €1 each		
Issued - 600,000 Ordinary shares at €1 each		600,000
Plant & Machinery (cost €440,000)	380,000	
Factory Buildings at cost	600,000	
Delivery Vans (cost €92,000)	68,000	
Patents	75,000	
Debtors and Creditors	41,600	29,500
Stocks 1/1/2007		
Raw Materials	58,000	
Work in progress	33,000	
Finished goods	64,000	
Factory Wages	130,000	
Purchase of Raw Materials	344,000	
Direct Expenses	38,000	
Sales		980,000
Returns in	3,400	
Sale of Scrap Materials		8,000
Directors Fees	36,000	
Factory Insurance	18,000	
Factory Light and Heat	43,400	
Profit and Loss Balance 1/1/2007		87,000
10% Debentures (issued 1/4/2007)		200,000
V.A.T.		10,200
Stationery	5,400	
Provision for bad debts		2,800
Bank		27,300
Advertising	7,000	
	1,944,800	1,944,800

You are given the following additional information:

(i) Stocks at 31/12/2007:
- Raw Materials €49,000
- Work in progress €23,000
- Finished Goods €74,000

(ii) Depreciation is to be provided as follows:
- Plant & Machinery - 20% of cost
- Delivery Vans - 10% of book value
- Factory Buildings - 3% of cost

(iii) Factory Wages are to be divided: 75% for direct wages and 25% for supervisor's wages.
(iv) Provision should be made for debenture interest due.
(v) Factory Insurance was for the year ended 31/03/2008.
(vi) Finished Goods are to be transferred from factory at Current Market Value of €700,000.
(vii) Provide for corporation tax €12,000.

You are required to prepare a:

(a) Manufacturing Account for the year ended 31/12/2007. (40)
(b) Trading and Profit and Loss Account for the year ended 31/12/2007 (40)
(b) Balance Sheet as at 31/12/2007. (40)

(120 marks)

2. Company Profit and Loss

Morgan Ltd. has an Authorised Capital of 800,000 Ordinary Shares at €1 each and 300,000 5% Preference Shares at €1 each. The company has already issued 400,000 of the Ordinary Shares and 200,000 5% Preference shares. On 1/1/2007 the company's General Reserve Account showed a balance of €85,000. Morgan Ltd. had carried forward a profit of €180,000 from 2006 and the accounts showed profits before interest and taxation of €210,000 for the year ended 31/12/2007. During the year a total dividend of 12c per ordinary share was paid to the Ordinary Shareholders and the total preference dividend for the year was paid to the Preference Shareholders.

On 31/12/2007 the directors recommended that:

(i) Interest of €15,000 be provided for.
(ii) Taxation of €47,000 be provided for.
(ii) The General Reserve be increased by €25,000.

You are required to:

(a) Show the Profit and Loss Account for the year ended 31/12/2007. (35)
(b) Prepare a Balance Sheet showing the relevant accounts after making the above provisions and appropriations. (25)

(60 marks)

3. **Bank Reconciliation Statement**

Set out below are the Bank Account and Bank Statement of T. Clarke for the month of April 2008:

Bank Account

		€				€
April 1	Balance b/d	8,760	April 3	S. Kelly	300101	450
April 8	Sales lodged	6,500	April 9	T. White	300102	640
April 20	Lodgement	4,270	April 15	Insurance	300103	1,930
April 28	Sales Lodged	1,960	April 18	R. Lowry	300104	275
			April 22	T. Casey	300105	820
			April 28	M. Malone	300106	1,300
			April 30	Balance	c/d	16,075
		21,490				21,490

Bank Statement on 30/4/2008

		Debit €	Credit €	Balance €
April 1	Balance b/d			8,760
April 3	Interest Received		200	8,960
April 5	300101 S. Kelly	450		8,510
April 8	Lodgement		6,500	15,010
April 11	300102 T. White	640		14,370
April 19	300103 Insurance	1,930		12,440
April 21	M. Feeney (R/D dishonoured)	730		11,710
April 22	Lodgement		4,270	15,980
April 23	300105 T. Casey	820		15,160
April 25	Standing Order	160		15,000
April 28	Bank Charges	33		14,967
April 29	T. Maher	500		14,467

Note: The €500 entered in the Bank Statement on April 29 was debited in error by the bank to T. Clarke's Account instead of to M. Clarke's.

You are required to:

(a) Show T. Clarke's adjusted Bank Account and bring down the adjusted balance. (35)

(b) Prepare a statement on 30/4/2008 reconciling the adjusted Bank Account balance with the Bank Statement balance. (25)

(60 marks)

4. Tabular Statement

The following Balance sheet shows the financial position of R. Kelly as at October 1st 2007.

Balance Sheet as at October 1st 2007

	€	€	€
Fixed Assets			
Buildings		330,000	
Motor Vehicles		105,000	435,000
Current Assets			
Stock		33,000	
Debtors		36,200	
Bank		22,700	
		91,900	
Less Creditors: amounts falling due within 1 year			
Creditors	29,000		
Expenses (due)	1,900	30,900	61,000
			496,000
Financed by:			
Capital			496,000
			496,000

The following transactions took place during October 2007:

Oct. 3	Received cheque for €2,300 from a debtor in full settlement of a debt of €2,500.
Oct 7	Bought goods on credit for €12,800.
Oct 9	Paid, by cheque, expenses that were due at the beginning of the month.
Oct 11	Paid, by cheque, a creditor's Account Balance of €6,300 and received discount of €300.
Oct 15	Sold on credit goods, which cost €11,300, for €14,500.
Oct 21	A debtor who owed €800 was declared bankrupt and paid 20c in the €1.
Oct 25	Paid by cheque from business bank account €1,700 for repairs to private residence.
Oct 28	Purchased an adjoining warehouse for €170,000. A deposit of €10,000 was paid by cheque and the remainder was borrowed from New Finance Ltd.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant Assets and liabilities and show the total assets and liabilities on 31st October 2007.

(60 marks)

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

5. **Interpretation of Accounts**

The following information has been taken from the accounts of Walsh Ltd. for the year ended 31/12/2007.

Trading Profit and Loss Account for year ended 31/12/2007

	€	€
Credit Sales		900,000
Less: Cost of Sales		
Stock 1/1/2007	?	
Purchases (credit)	620,000	
	?	
Less: Stock 31/12/2007	63,000	
Cost of Sales		610,000
Gross Profit		290,000
Less Expenses (including Interest paid €24,000)		160,000
Net Profit for the year		130,000
Profit and Loss Balance 1/1/2007		133,000
Profit and Loss Balance 31/12/2007		263,000

Balance Sheet as at 31/12/2007

	€	€
Fixed Assets		820,000
Current Assets	156,000	
Less Creditors: amounts falling due within 1 year (including Creditors €35,600)	73,000	83,000
		903,000
Financed by		
Creditors: amounts falling due after more than 1 year		
8% Debentures (2011/2012)		300,000
Capital and Reserves		
Ordinary Shares	340,000	
Profit/Loss account	263,000	
		603,000
		903,000

(a) **You are required to calculate:**
(i) The figure for Opening Stock
(ii) The period of credit received from Creditors
(iii) The return on Capital Employed
(iv) The Acid Test ratio (40)

(b) **Explain the following:**
(i) 8% Debentures (2011/2012)
(ii) Interest paid
(iii) Liquid Assets
(iv) Shareholders funds (40)

(c) Would Walsh Ltd. have fared better if it had sold out and invested its money in a financial institution for the past year? Give reasons for your answer. (10)

(d) If the current ratio and the quick asset ratio for 2006 were 1.3 to 1 and 0.7 to 1, comment on the liquidity of the firm. (10)

(100 marks)

6. Incomplete Records - Control Accounts

R. Savage did not keep a full set of books during the year ended 31/12/2007. The following is a summary of the cash account for that period:

	€	€
Cash Receipts		
Balance – 1/1/2007	7,300	
Debtors	78,200	
Commission	4,500	
Sales	205,000	295,000
Cash Payments		
Purchases	92,200	
Drawings	8,200	
Creditors	57,400	
Wages and general expenses	74,300	
Equipment	4,600	236,700

The following additional information is also available:

	1/1/2007 €	**31/12/2007** €
Premises	840,000	840,000
Delivery Vans	68,000	68,000
Debtors	10,400	9,600
Creditors	8,700	4,900
Stock	12,300	14,200
Expenses due	520	600

Note: Depreciate Delivery Vans by 20% of cost per annum.

You are required to:

(a) Calculate Savage's total purchases and total sales using **control accounts**. (30)

(b) Prepare a Trading and Profit and Loss Account for the year ended 31/12/2007. (30)

(c) Prepare a Balance Sheet on the 31/12/2007. (40)

(100 marks)

7. **Cash Flow Statement**

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

Profit and Loss Extract for year ended 31/12/2007	**€**
Operating Profit	110,000
Interest paid	(7,000)
	103,000
Taxation	(32,000)
	71,000
Dividends paid	(31,000)
Retained profits for year	40,000
Profit and loss balance 1/1/2007	86,000
Profit and loss balance 31/12/2007	126,000

Balance Sheets as at	**31/12/2007**		**31/12/2006**	
	€	**€**	**€**	**€**
Fixed Assets				
Land & Buildings	730,000		690,000	
Less depreciation provision	54,000	676,000	49,000	641,000
Current Assets				
Stock	83,000		75,000	
Debtors	45,000		33,000	
Cash	38,000		6,000	
	166,000		114,000	
Less Creditors: amounts falling due within 1 year				
Creditors	74,000		73,000	
Taxation	32,000		26,000	
	(106,000)		(99,000)	
Net Current Assets		60,000		15,000
Total Net Assets		736,000		656,000
Financed by				
Creditors: amounts falling due after more than 1 year				
8% Debentures		100,000		90,000
Capital and Reserves				
Ordinary Share capital issued		510,000		480,000
Profit & Loss account		126,000		86,000
		736,000		656,000

You are required to:

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

(b) Prepare the cash flow statement of Milano Ltd. for the year ended 31/12/2007 using the following headings: (65)

1. Operating activities
2. Returns on investments and servicing of finance
3. Taxation
4. Capital expenditure and financial investment
5. Equity dividends paid
6. Financing.

(c) Reconcile the Net Cash Flow to Movement in Net Debt. (5)

(100 marks)

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

8. Marginal Costing

McBride Ltd. manufactures a single product which sells for €15 per unit. All goods produced are sold so there is never any stock of product on hand. A costing analysis reveals that:

Variable costs per unit amount to €10 per unit
Fixed costs for the period are €35,000

You are required to:

(a) Calculate the Contribution for each unit sold.

(b) Calculate the Break Even Point in volume (units) <u>and</u> sales value for this product using the data above.

(c) Calculate the Margin of Safety in units <u>and</u> sales value if the budgeted sales for the period are 12,000 units.

(d) Prepare a Marginal Costing Statement to show the Profit or Loss at the following production levels:

1. 6,600 units
2. 7,700 units
3. 8,800 units

(e) Calculate the level of production and sales revenue that will yield a profit of €30,000.

(80 marks)

9. <u>Budgeting</u>

Boyle Ltd manufactures two types of telephone '**Redline**' and '**Blueline**'. The sales of each type of telephone and other relevant figures for the year ended 31/12/2007 are budgeted at:

	Redline	**Blueline**
Budgeted Sales	1,400 units	900 units
Expected selling price per unit	€190	€280
Expected stocks – *Finished goods*	**Redline**	**Blueline**
Opening stocks	340	160
Closing stocks	275	70
Material content and costs	**Material X**	**Material Y**
Redline	18 grams	11 grams
Blueline	15 grams	14 grams
Expected price per gm	€13	€17
Expected stocks – *Raw materials*	**Material X**	**Material Y**
Opening stocks	370 grams	290 grams
Closing stocks	410 grams	360 grams
Direct labour time in hours		
Redline	5 hours	
Blueline	8 hours	
Direct labour rate per hour	**€12**	

You are required to prepare the following budgets:

(a) Sales Budget in **units and in €.**

(b) Production Budget.

(c) Materials Usage Budget.

(d) Materials Purchases Budget in **units and in €.**

(e) Labour Budget.

(80 marks)

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