Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2010

MARKING SCHEME

ACCOUNTING

ORDINARY LEVEL

LEAVING CERTIFICATE ACCOUNTING - 2010

Ordinary Level Marking Scheme

INTRODUCTION

The solutions and marking scheme for Accounting Higher Level are attached.

Marks allocated to each line/figure are highlighted and shown in brackets 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 not as 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 a calculation in section (a) is incorrect, allowance is made for this in subsequent sections.

QUESTION 1

[80]

Trading and profit and Loss Account of Maddison Ltd for year ended 31/12/2009. [1]

			€	€	
Sales				680,000	[3]
Less Returns in				7,300	[3]
				672,700	
Less: Cost of Sales					
Opening stock			103,200 [2]		
Add Purchases			279,300 [3]		
Add Carriage in			5,700 [3]		
			388,200		
Less: Closing stock			63,400 [2]		
Cost of Sales				324,800	
Gross Profit				347,900	
Less Expenses					
Administration/Establishment [1]					
Wages/Salaries		175,000 [4]			
Stationery	1,800				
Add Purchases	25,200				
	27,000				
Less: Closing stock	600	26,400 [6]			
Directors Fees		22,000 [4]			
Depreciation – Buildings 5% of cost		30,000 [4]			
Office Equipment -10% of cost		8,500 [4]			
Insurance	12,000				
Less Insurance paid	3,000	9,000 [6]	270,900		
Selling and Distribution [1]					
Advertising	34,000				
Add advertising due	2,500	36,500 [6]			
Provision for bad debts (6,800 – 4,900)		1,900 [5]	38,400		
Total Expenses				309,300	
				38,600	
Add discount gained				5,000	[5]
Operating Profit				43,600	
Less Debenture Interest				7,425	[5]
Net Profit for the year				36,175	
Less Corporation Tax				12,000	[4]
Profit after taxation				24,175	
Profit and Loss Balance on 1/1/2009				28,500	[2]
Profit and Loss Balance on 31/12/2009				52,675	[6]

[40]

Balance Sheet of Maddison Ltd as on 31/12/2009.

	Cost		Accumulated Depreciation		Net Book Value	
Fixed Assets	**€**		**€**		**€**	
Buildings	600,000	[2]	90,000	[2]	510,000	[2]
Office Equipment	85,000	[2]	25,500	[2]	59,500	[2]
	685,000		113,800		569,500	
Intangible Assets						
Patents					74,000	[2]
					643,500	
Current Assets						
Closing stock			63,400	[2]		
Stationery			600	[2]		
Insurance prepaid			3,000	[2]		
Debtors	68,000	[2]				
Less provision for bad debts	6,800	[1]	61,200			
			128,200			
Creditors: Amounts falling due within 1 year						
Advertising due	2,500	[2]				
Creditors	44,000	[2]				
VAT	20,300	[2]				
Bank	33,800	[2]				
Debenture Interest due	7,425	[2]				
Tax due	12,000	[2]				
			120,025			
Working Capital					8,175	
Total Net Assets					651,675	
Financed by:						
Creditors: Amounts falling due after more than 1 year						
10% Debentures					99,000	[2]
Capital & Reserves	Authorised		Issued			
Ordinary Share Capital	800,000	[1]	500,000	[1]		
Profit and Loss Account			52,675	[1]		
					552,675	
Capital Employed					651,675	

QUESTION 2 **[60]**

Tabular Statement

Assets	**Nov 1**	**Nov 4**	**Nov 6**	**Nov 10**	**Nov 15**	**Nov 17**	**Nov 19**	**Nov 24**	**Totals**
Buildings	300,000 [1]								300,000
Machinery	90,000 [1]					+12,000 [2]			102,000
Stock	26,000 [1]			+ 7,300 [2]					33,300
Debtors	55,000 [1]	(650) [3]					(900) [2]		53,450 [1]
Bank	10,400 [1]	+ 630 [3]	(500) [2]		(2,000) [2]	(3,000) [2]	+ 450 [2]	(1,700) [3]	4,280 [1]
Totals	**481,400 [1]**	**(20)**	**(500)**	**+ 7,300**	**(2,000)**	**+ 9,000**	**(450)**	**(1,700)**	493,030

Liabilities	**Nov 1**	**Nov 4**	**Nov 6**	**Nov 10**	**Nov 15**	**Nov 17**	**Nov 19**	**Nov 24**	**Totals**
Capital	450,000 [2]								450,000 [1]
Profit/Loss	11,900 [2]	(20) [3]					(450) [2]	+ 100 [3]	11,530
Drawings					(2,000) [2]				(2,000)
Creditors	19,000 [2]			+ 7,300 [2]				(1,800) [3]	24,500 [1]
Expenses due	500 [2]		(500) [2]						-
Quick Finance Ltd						+ 9,000 [2]			9,000
Totals	**481,400** [1]	**(20)**	**(500)**	**+ 7,300**	**(2,000)**	**+ 9,000**	**(450)**	**(1,700)**	493,030

QUESTION 3

[35]

(a)

Adjusted Bank Account

		€				€	
Aug	Balance b/d	7,570	[6]	Aug	Cheque Dishonoured	270	[6]
Aug	Interest Received	300	[6]	Aug	Standing Order	80	[6]
				Aug	Bank charges	65	[6]
				Aug	Balance c/d	7,455	[5]
		7,870				7,870	
Aug	Balance c/d	7,455					

(b)

[25]

Bank Reconciliation Statement

Adjusted Cash Book Balance				7,455	[3]
Add: Cheques drawn not yet cashed					
400103	G. Mitchell	1,200	[3]		
400104	T. Reid	500	[3]		
400105	P. Clarke	1,840	[3]	3,540	
				10,995	
Less: Lodgement not yet credited				3,500	[3]
				7,495	
Less Bank error				290	[8]
Balance as on the Bank Statement				7,205	[2]

OR

Balance as per Bank Statement				7,205	[2]
Add Lodgement not yet credited				3,500	[3]
				10,705	
Less Cheques drawn not yet cashed					
400103	G. Mitchell	1,200	[3]		
400104	T. Reid	500	[3]		
400105	P. Clarke	1,840	[3]		
				3,540	
				7,165	
Add Bank error				290	[8]
Balance as per adjusted Bank Account				7,455	[3]

QUESTION 4 [20]

(a)

Statement of Capital as on 1/1/2009

Liabilites			**Assets**		
Electricity due	600	[3]	Building	450,000	[2]
Capital (1/1/2008)	542,200	[3]	Furniture	16,400	[2]
			Motor Vehicles	36,000	[2]
			Bank	11,200	[3]
			Dental Equipment	28,000	[2]
			Private Patients	1,200	[3]
	542,800			542,800	

(b) Income/Expenditure Account of Mary O'Donnell for the year ended 31/12/2009 [40]

Income						
Private Patients						
(220,400-1,200 +6,700)					225,900	[6]
Medical Card Scheme					104,900	[3]
					330,800	
Expenditure						
Electricity (14,500 – 600)			13,900	[4]		
Dental Materials	34,200					
Less Dental Material stock 31/12/2009	3,400		30,800	[6]		
Insurance	6,000					
Less Insurance prepaid	1,900		4,100	[4]		
Telephone			4,900	[2]		
Motor expenses			2,100	[2]		
Technician fees			24,700	[2]		
Magazines			750	[2]		
Depreciation:						
Equipment 10% of cost	4,000	[2]				
Motor Vehicles 20% of cost	7,200	[2]	11,200			
					92450	
Net Profit for this year					238350	[5]

QUESTION 5 **[40]**

[10]

(a) **(i)** **Cost of Sales** = Sales – Gross Profit
670,000 – 172,000 = 498,000
556,000 – 58,000 = 498,000

(ii) **Net Profit** = Gross Profit – Expenses
172,000 – 104,000 = 68,000
[10]

(iii) **Rate of stock turnover**

$$\frac{\text{Cost of goods sold}}{\text{Average Stock}} \quad \frac{498{,}000}{52{,}000} = 9.57 \text{ times}$$ [10]

½ (46,000 + 58,000) = 52,000

(iv) **Period of credit received from Creditors**

$$\frac{\text{Creditors} \times 365}{\text{Credit Purchases}} = \frac{64{,}000 \times 365}{510{,}000} = 45.8 \text{ days}$$

[10]

(b) **[40]**

(i) **Shareholders Funds:**
The amount owed to the shareholders by the Company. It consists of the Issued Capital and Reserves. [10]

(ii) **Interest Paid:**
This is the extra money paid back to the lender for the use of money borrowed from a Bank. [10]

(iii) **Depreciation:**
This is the loss in value of a Fixed Asset during the year because of usage or the passage of time. A business will decide on a suitable %. [10]

(iv) **7% Debentures (2016/2017):**
Debentures are Long-term Loans. The fixed annual rate of interest is 7%.Loan must be paid back in one lump sum during the year 2016/2017.

(c) **(i)** The Current Ratio 2009 is 2.03 : 1 [10]
The Acid Test Ratio 2009 is 1.12 :1

(ii) The current ratio has improved by 0.23 from previous year.
The Acid Test has fallen from 1.4:1 to 1.1:1 but is still above the recommended ratio of 1:1. This means that for every €1 they owe they have €1.12 available to pay.

(d) **(i)** Return on Capital Employed is 9.3% [10]
(ii) Return has fallen by 2.7% from last year. Brophy Ltd is still performing well better than the return available from risk free investments of 4% to 5%

QUESTION 6

[10]

(a) **Capital 1/1/2009**

Assets				
Bank	24,900	[2]		
Premises	430,000	[1]		
Vans	72,000	[1]		
Debtors	15,300	[1]		
Stock	19,300	[1]	561,500	
Less Liabilities				
Creditors	6,400	[1]		
Expenses due	1,160	[1]	7,560	
Capital at 1/1/2009			553,940	[2]

(b) **[20]**

Debtors Control Account (W1)

2009		**€**		**2009**		**€**	
1/1/09	Balance b/d	15,300	[2]	31/12/09	Cash	67,200	[2]
	Credit Sales	64,500	[2]	31/12/09	Balance c/d	12,600	[2]
		79,800				79,800	

Credit Sales + Cash Sales = Total sales
64,500 + 283,500 = 348,000 [2]

Creditors Control Account (W2)

2009		**€**		**2009**		**€**	
31/12/09	Cash paid	43,700	[2]	1/1/09	Balance c/d	6,400	[2]
31/12/09	Balance c/d	5,900	[2]		Credit Purchases	43,200	[2]
		49,600				49,600	

Credit Purchases + Cash Purchases = Total Purchases
43,200 + 108,500 = 151,700 [2]

(c)

[30]

Trading and profit and Loss Account for year ended 31/12/2009

	€		€	
Sales (W1)			348,000	[3]
Less: Cost of Sales				
Opening Stock	19,300	[3]		
Add Purchases (W2)	151,700	[3]		
	171,000			
Less: Closing Stock	17,800	[3]		
Cost of Sales				
			153,200	
Gross Profit			194,800	
Less Expenses				
Wages and general expenses	68,000	[2]		
Add Wages and general expenses due 31/12/09	970	[2]		
	68,970			
Less Wages and general expenses 1/1/09	1,160	[2]		
	67,810			
Depreciation: Delivery Vans 20%	14,400	[4]	82,210	
			112,590	
Add Commission received			4,800	[4]
Net Profit			117,390	[4]

(d)

[40]

Balance Sheet of Mary O'Driscoll as on 31/12/2009

Fixed Assets	**€ Cost**		**€ Dep**		**€ Net**	
Premises	430,000		-		430,000	[3]
Delivery Vans	72,000	[2]	14,400	[2]	57,600	[3]
Furniture	12,000				12,000	[4]
	514,000		14,400		499,600	
Current Assets						
Stock			17,800	[4]		
Debtors			12,600	[4]		
Bank (380,240 – 244,100)			136,300	[4]		
			166,700			
Less Creditors: amounts falling due within 1 year.						
Creditors			5,900	[4]		
Expenses due			970	[4]	6,870	
Net Current assets					159,830	
Total Assets less current liabilities					659,430	
Financed by						
Capital 1/1/2009					553,940	[1]
Add Net Profit					117,390	[1]
					671,330	
Less Drawings					11,900	[4]
Capital employed					659,430	

QUESTION 7 **[30]**

(a)

Reconciliation of Operating Profit to net cash flow

	€	
Operating profit	80,000	[3]
Add Depreciation	20,000	[6]
Less Stock Increase	(13,000)	[6]
Less Debtors Increase	(8,000)	[6]
Add Creditors Increase	7,000	[6]
Net Cash inflow from operating activities		
	86,000	[3]

[65]

(b)

Cash Flow Statement of Roger Ltd for the year ended 31/12/2009

Operating Activities [2]		
Net cash inflow from operating activities	86,000	[4]
Return on investments and servicing of finance [2]		
Interest paid	(9,000)	[8]
Taxation [2]		
Tax paid	(18,000)	[8]
Capital Expenditure and Financial Investment [2]		
Purchase of land/buildings	(100,000)	[8]
Equity/Ordinary Dividend paid [2]		
Dividend paid	(5,000)	[8]
Net cash outflow before liquid resources and financing	(46,000)	
Financing [2]		
Issue of ordinary share capital	80,000	[6]
Repayment of Debentures	(30,000)	[6]
Increase in cash	4,000	[5]

(c) **[5]**

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period	4,000	[1]
Cash used to repay debentures	30,000	[1]
Change in net debt	34,000	[1]
Net debt at 31/12/2008	(55,000)	[1]
Net debt at 31/12/2009	(21,000)	[1]

QUESTION 8 **[80]**

(a) **Selling Price per unit** = $\frac{480,000}{40,000}$ = €12 per unit [10]

(b) **Variable cost per unit** = $\frac{160,000}{40,000}$ = €4 per unit [10]

(c) **Contributions per unit**

Selling price	12.00			
Less Variable cost	4.00	=	€8 per unit	[15]
Contribution	8.00			

(d) **Break-even point in units** = $\frac{\text{Fixed Cost}}{\text{Contribution}}$ = $\frac{64,000}{8}$ = 8,000 units

Sales Value = 8,000 units × €12 = €96,000 [20]

(e) **Margin of safety** = $\frac{\text{Budgeted Sales}}{\text{Break –even point}}$ = 40,000 – 8,000 = 32,000 units [10]

Sales Value = 32,000 × €12 = €384,000

(f) **To achieve a net profit of 120,000**

$\frac{FC + TP}{8}$ = $\frac{64,000 + 120,000}{8}$ = $\frac{184,000}{8}$ = 23,000 units [15]

QUESTION 9 [80]

(a)

Sales Budget

	Goldstar		Silverstar	
Expected Sales in units	1,400	[4]	1,800	[4]
Selling Price	€80	[4]	€50	[4]
Budgeted Sales Value	€112,000	[1]	€90,000	[1]

(b)

Production Budget

	Goldstar		Silverstar	
Required for sales	1,400	[2]	1,800	[2]
Add closing stock	210	[2]	160	[2]
	1,610		1,960	
Less opening stock	180	[2]	220	[2]
Units produced	1,430	[2]	1,740	[2]

(c)

Materials Usage Budget

	Material A		Material B	
Goldstar (1,430 x 2g)	2,860 grams	[3]	7,150 (1,430 x 5 grams)	[3]
Silverstar (1,740 x 3g)	5,220 grams	[3]	6,960 (1,740 x 4 grams)	[3]
	8,080 grams	[2]	14,110 grams	[2]

(d)

Materials Purchases Budget

	Material A		Material B	
Required for production	8,080 grams	[2]	14,110 grams	[2]
Add Closing stock	240	[3]	430	[3]
	8,320 grams		14,540 grams	
Less Opening stock	210 grams	[3]	300	[3]
	8,110 grams	[1]	14,240 grams	[1]

(e)

Labour Budget

	Goldstar		Silverstar	
Units	1,430	[1]	1,740	[1]
Labour hour per unit	8 hrs	[1]	5 hrs	[1]
	11,440 hrs	[1]	8,700 hrs	[1]
Wage rate per hour	€9	[1]	€9	[1]
	€102,960		€78,300	

Total = €181,260 [4]

Or

Goldstar	(1,430 units × 8 hrs)	=	11,440 hrs	[3]
Silverstar	(1,740 units x 5 hrs)	=	8,700 hrs	[3]
Budgeted direct labour hrs			20,140 hrs	
Labour rate per hour		=	€9	[2]
Total		=	€181,260	[4]