Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2012

Marking Scheme

Accounting

Ordinary Level

LEAVING CERTIFICATE EXAMINATION, 2012

ACCOUNTING - ORDINARY LEVEL

Solutions and Marking Scheme

INTRODUCTION

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

Marks allocated to each line/figure are highlighted and shown in brackets like this alongside. [6]

These marks are then totalled for each section/page and shown in a square like this 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 (e.g. 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.

Q.1 Final Accounts of a Sole Trader

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L. Bradley

Trading, Profit and Loss Account for year ended 31/12/2011 [1]

	€		€		€	
Sales					570,000	[3]
Less Returns Inwards					4,600	[3]
Net Sales					565,400	
Less: Cost of Sales						
Stock 01/01/2011			36,000	[2]		
Purchases	320,000	[3]				
Less Returns Outwards	2,300	[3]				
	317,700					
Carriage Inwards	11,400	[3]	329,100			
			365,100			
Stock 31/12/2011			31,000	[2]		
Cost of Sales					334,100	
Gross Profit					231,300	
Less Expenses						
Administration [1]						
Wages	96,000	[3]				
General Expenses	26.100	[3]				
Stationery	3,100	[4]				
Insurance	13,500	[4]				
Depreciation						
Buildings	7,200	[4]				
Equipment	2,890	[4]	148,790			
Selling and Distribution [1]						
Advertising	7,050	[6]				
Bad Debt Provision	725	[5]				
Commission	3,000	[3]				
Depreciation						
Motor Vehicles	36,000	[4]	46,775			
					195,565	
					35,735	
Add Discount Received					2,700	[3]
Operating Profit					38,435	
Less Loan Interest					7,500	[6]
Net Profit for this year					30,935	[2]
Add Profit/Loss Balance 01/01/2011					4,300	[3]
Profit/Loss Balance 31/12/2011					**€35,235**	[4]

(b) **Balance Sheet of L. Bradley as on 31/12/2011** [1]

40

		€		€		€	
Fixed Assets		**Cost**		**Dep.**		**N.B.V.**	
Buildings		240,000	[1]	7,200	[2]	232,800	
Equipment		36,000	[1]	9,990	[2]	26,010	
Motor Vehicles		180,000	[1]	84,000	[2]	96,000	
		456,000	[1]	101,190		354,810	
Patents						45,000	[2]
						399,810	
Current Assets							
Closing Stock		31,000	[2]				
Stock of Stationery		600	[2]				
Debtors	58,500						
Less BDP	2,925	55,575	[4]				
Advertising Prepaid		2,350	[2]	89,525			
Creditors: **amounts falling due within 1 year**							
Creditors		63,700	[2]				
Bank		6,500	[2]				
VAT		3,100	[2]				
PRSI		5,000	[2]				
Loan Interest due		3,500	[2]	81,800			
						7,725	
						€407,535	
Financed By:							
Creditors: **amounts falling after 1 year**							
Loan						100,000	[2]
Capital 01/01/2011				290,000	[2]		
Profit/Loss Balance 31/12/2011				35,235	[1]		
				325,235			
Drawings				17,700	[2]	307,535	
						€407,535	

Q.2 Company Reserves

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(a)

Profit and Loss Account of Doyle Ltd.

Net Profit for year			180,000	[2]
Less Interest			(24,000)	[5]
Less Taxation			(63,000)	[5]
Profit after taxation			93,000	
Less: Appropriations				
General Reserve	15,000	[5]		
Ordinary Dividend	54,000	[5]		
Preference Dividend	10,000	[5]	79,000	
Retained Profit for year			14,000	
Retained Profit 01/01/2011			220,000	[5]
Retained Profits carried forward			**€234,000**	[3]

(b)

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Balance Sheet extract as at 31/12/2011

	€		€		€
Fixed Assets/Current Assets					1,231,000
Creditors: amounts falling due within 1 year [1]					
Interest due			24,000	[4]	
Taxation due			63,000	[4]	
					(87,000)
					€1,144,000
Financed By:					
Capital and Reserves [1]	**Authorised**		**Issued**		
Share Capital					
Ordinary Shares @ €1	900,000	[1]	600,000	[2]	
5% Preference Shares @ €1	400,000	[1]	200,000	[2]	
	1,300,000		800,000	[1]	
General Reserve			110,000	[4]	
Profit and Loss Balance			234,000	[4]	
Shareholders' Funds					1,144,000

Q.3 Correction of Errors

35

Journal Entries		Dr		Cr	
		€		€	
1.	Purchases	2,700	[3]		
	Suspense			2,700	[3]
	Being correction of an error under posting the purchases book. [1]				
2.	Wages	800	[3]		
	Bank			800	[3]
	Being correction of an error of omission: wages not posted to the ledger. [1]				
3.	Aoife O'Brien	1,500	[3]		
	Ellen O'Brien			1,500	[3]
	Being correction of sales debited to Ellen O'Brien instead of Aoife O'Brien. [1]				
4.	Drawings	700	[3]		
	Purchases			700	[3]
	Being correction of error, good taken by owner not entered in the books. [1]				
5.	Sales Returns	500	[3]		
	Suspense			500	[3]
	Being correction of error of under totting of sales returns book. [1]				

(b)

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Statement of Corrected Net Profit

Original Net Profit			15,700	[4]
Add Purchases			700	[4]
			16,400	
Less:				
Purchases	2,700	[4]		
Wages	800	[4]		
Sales Returns	500	[4]	4,000	
Corrected Net Profit			12,400	[5]

Q.4 Club Accounts

(a) 15

Accumulated Fund of St. Thomas's Football Club on the 01/01/2011

	€	
Assets		
Clubhouse/Pitches	570,000	[2]
Equipment	25,000	[2]
Bar Stock	5,700	[2]
Investments	12,000	[2]
Subs due	600	[2]
Cash	8,800	[2]
	622,100	
Less Liabilities		
Expenses due	450	[2]
Accumulated Fund 01/01/2011	621,650	[1]

(b) Bar Trading Account 9

			35,500	[2]
Bar Sales				
Less Cost of Sales				
Opening Stock		5,700 [2]		
Add: Purchases for cash	26,200			
Creditor payments	2,100			
Creditors 31/12/	750	29,050 [3]		
		34,750		
Less Closing Stock		4,400 [2]		
			30,350	
Bar Profit			**5,150**	

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(c) Income/Expenditure Account of St. Thomas's Football Club for the year ended 31/12/2011

			€	
Income				
Bar Profit			5,150	[2]
Subscriptions	18,000	[2]		
Less: Subs due 01/01	(600)	[2]		
Less: Subs prepaid 31/12	(960)	[2]	16,440	
Interest Received			1,300	[2]
Annual sponsorship			6,000	[2]
			28,890	
Expenditure				
General Expenses (15,900 – 450 + 1,150)	16,600	[6]		
Dep.: Equipment	2,960	[2]		
Clubhouse	11,400	[2]		
Competition loss	300	[5]	31,260	
Surplus of Expenditure / Income			€2,370	[3]

(d) Subscriptions: The amount paid by members each year to join a club. 6

Q.5 Interpretation of Accounts **40**

(a) **(i)** **Opening Stock**

490,000 + 32,000 = 522,000 – 456,000 = €66,000 [10]

(ii) **Gross Profit Margin**

740,000 - 490,000 = 250,000

$$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1} \qquad \frac{250{,}000}{} \times \frac{100}{1} = 33.78\%$$ [10]

(iii) **Credit Period received from Creditors**

$$\frac{\text{Creditors x 365}}{\text{Credit Purchases}} = \frac{75{,}000 \times 365}{456{,}000} = 60.03 \text{ days}$$ [10]

(iv) **The Acid Test Ratio**

Liquid Assets = Current Assets – Closing Stock : Current Liabilities

90,000 – 32,000 : 75,000

58,000 : 75,000

0 .77 : 1 [10]

(b) **40**

(i) **Interest Paid**: This is the extra money paid back to the lender for the use of money borrowed from a bank. It is the cost of borrowing money. [10]

(ii) **5% Debentures (2018/2019)**: Debentures are long-term loans. They will be repaid in full during the years 2018/2019. They carry a fixed annual rate of interest of 5% . [10]

(iii) **Liquid Assets**: These are current assets that can be turned into cash quickly. Liquid Assets are made up of cash, bank and debtors. It is current assets less closing stock. [10]

(iv) **Shareholders Funds**: This is the amount of money owed to the shareholders by a Company. It consists of Issued Share Capital and Reserves. [10]

(c) (i) Yes. **10**

(ii) They have an Acid Test Ratio of 0.77:1 which is below the ideal of 1:1.
This ratio tells us that they have liquid assets of 77cent for every euro they owe.

(d) (i) $$\frac{\text{Net Profit + Interest x 100}}{\text{Capital Employed}} \qquad \frac{106{,}000 + 7{,}000 \text{ x } 100}{510{,}000} = 22.15\%$$ **10**

(ii) 2010 - 18%
2011 - 22%
Return on Capital Employed has increased by approx 4%. This is an excellent return as they would only have received about 3% from a bank.

Q.6 Incomplete Records **10**

Capital 01/01/2011

	€		€	
Assets				
Premises	295,000	[1]		
Delivery Vans	72,000	[1]		
Stock	14,200	[1]		
Debtors	15,400	[1]		
Cash	38,400	[2]	435,000	
Less Liabilities				
Creditors	8,300	[1]		
Expenses due	2,130	[1]	10,430	
Capital 01/01/2011			424,570	[2]

(b) **20**

Debtors Control Account

Dr						Cr	
01/01/11	Balance	15,400	[2]	31/12/11	Cash	84,300	[2]
	Credit Sales	88,100	[1]	31/12/11	Balance c/d	19,200	[2]
		103,500				103,500	

Credit Sales + Cash Sales = Total Sales
88,100 + 174,100 = 262,200
[3]

Creditors Control Account

Dr						Cr	
31/12/11	Bank	55,300	[2]	1/1/2011	Balance c/d	8,300	[2]
31/12/11	Balance	10,800	[2]		Credit Purchases	57,800	[1]
		66,100				66,100	

Credit Purchases + Cash Purchases = Total Purchases
57,800 + 125,700 = 183,500
[3]

(c) **30**

Trading and Profit and Loss Account of Brian O'Dowd for the year ended 31/12/2011

	€	€	€	
Sales			262,200	[3]
Less: Cost of Sales				
Stock 01/01/2011		14,200 [3]		
Purchases		183,500 [3]		
		197,700		
Stock 31/12/2011		12,600 [3]		
Cost of Sales			185,100	
Gross Profit			77,100	
Less Expenses				
General Expenses		47,360 [6]		
Dep. Delivery vans		14,400 [4]	61,760	
			15,340	
Add				
Commission received			_5,700	[4]
Net Profit			21,040	[4]

(d) **Balance Sheet of Brian O'Dowd as on 31/12/2011** **40**

	€	€	€
Fixed Assets	**Cost**	**Depr**	**N.B.V.**
Buildings	295,000		295,000 [3]
Delivery Vans	72,000 [2]	14,400 [2]	57,600 [3]
Furniture	16,500		16,500 [4]
	383,500	14,400	369,100
Current Assets			
Closing Stock	12,600 [4]		
Debtors	19,200 [4]		
Bank	35,600 [6]	67,400	
Creditors: **amounts falling due within 1 year**			
Creditors	10,800 [4]		
Expenses due	890 [4]	11,690	
			55,710
			€424,810
Financed By:			
Creditors: **amounts falling after 1 year**			
Capital 01/01/2011		424,570 [1]	
Profit/Loss Balance 31/12/2011		21,040 [1]	
		445,610	
Drawings		20,800 [2]	
			€424,810

Q.7 Cash Flow Statement

(a)

Reconciliation of Operating Profit to net cash flow **30**

	€	
Operating Profit	92,000	[3]
Add: Depreciation	5,000	[6]
Decrease in Stock	1,000	[6]
Increase in Debtors	(9,000)	[6]
Increase in Creditors	6,000	[6]
Net Cash inflow from operating activities	95,000	[3]

(b) **65**

Cash Flow Statement of Shepard Ltd for the year ended 31/12/2011

Operating Activities [2]				
Net cash inflow from operating activities			95,000	[4]
Return on investments and servicing of finance [2]				
Interest paid			(6,000)	[8]
Taxation [2]				
Tax paid			(16,000)	[4]
Capital Expenditure and Financial Investment [2]				
Purchases of building			(90,000)	[6]
Equity/ Ordinary Dividends paid [2]				
Dividends paid			(28,000)	[8]
Net cash outflow before liquid resources and financing			(45,000)	
Financing [2]				
Issue of ordinary share capital	60,000	[6]		
Issue of Share Premium	10,000	[6]		
	70,000			
Repayment of Debentures	(20,000)	[6]		
			50000	
Increase in cash			5,000	[5]

(c) **5**

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period	5,000	[1]
Cash used to repay debentures	20,000	[1]
Change in net debt	25,000	[1]
Net debt at 1/1/2011	(101,000)	[1]
Net debt at 31/12/2011	(76,000)	[1]

Q.8 Marginal Costing **80**

(a) Selling Price = $\frac{€400,000}{50,000}$ = €8 per unit [12]

(b) Variable Cost per unit = $\frac{€170,000}{50,000}$ = €3.40 per unit [10]

(c) Contribution per unit

Selling Price	8.00	
– Variable Cost per Unit	3.40.	
Contribution	€4.60	[10]

(d) Break- even -point $\frac{\text{Fixed costs}}{\text{C.P.U.}}$ = $\frac{36,000}{€4.60}$ = 7,827 units [10]

(e) Margin of Safety Budgeted sales — Break-even-point

50,000 — 7,827 = 42,173units

Sales value 42,173 × €8 = €337,384 [15]

(f) Marginal Costing Statement **[15]**

Sales	(55,000 x €6)	=	€330,000
Less Variable Costs	(55,000 x €3.40)	=	€187,000
Contribution			€143,000
Fixed Costs			36,000
Profit			€107,000

(g) Variable Cost is a cost that varies with the number of units produced e.g. raw materials. [8]

Q.9 Budgeting

(a)

Sales Budget

	Mega		Rapid	
Budgeted Sales	2,600	[4]	1,200	[4]
Budgeted selling price	€50	[3]	€70	[3]
	130,000	[1]	84,000	[1]
Total Sales	= €214,000			

(b)

Production Budget (units)

	Mega		Rapid	
Budgeted Sales	2,600	[2]	1,200	[2]
Add Budgeted closing stock	340	[2]	250	[2]
	2,940		1,450	
Less Budgeted opening stock	160	[2]	90	[2]
Budgeted production in units	2,780	[2]	1,360	[2]

(c)

Materials Usage Budget

	Material A		Material B		
Mega (2,780 x 4)	11,120 gms	[3]	16,680 gms	[3]	(2,780 x 6)
Rapid (1,360 x 2)	2,720 gms	[3]	6,800 gms	[3]	(1,360 x 5)
Budgeted Material Usage	13,840 gms	[2]	23,480 gms	[2]	

(d)

Materials Purchases Budget

	Material A		Material B	
Budgeted Usage	13,840	[2]	23,480	[2]
Add Budgeted closing stock	830	[2]	450	[2]
	14,670		23,930	
Less Budgeted opening stock	750	[2]	530	[2]
Budgeted production in units	13,920		23,400	
Budgeted Purchase Price	x €3	[1]	x €4	[1]
Budgeted Purchases	€41,760	[1]	€93,600	[1]

(e)

Labour Budget

	Mega		Rapid	
Budgeted Production	2,780	[1]	1,360	[1]
No of hours per unit	x 6	[1]	x 8	[1]
	16,680 hrs	[1]	10,880 hrs	[1]
Labour Rate per hour	x €7	[1]	x €7	[1]
	€116,760		€76,160	

Total Labour Cost = €192,920 [2]

(f) A Production Budget tells us the number of units of a product that should be made in order to meet sales demand and satisfy stock requirements. [6]