Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2014

Marking Scheme

Accounting

Ordinary Level

Note to teachers and students on the use of published marking schemes

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work. In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

ACCOUNTING SOLUTIONS – ORDINARY LEVEL

1. Final Accounts of a Limited Company 80

Trading Profit and Loss Account of Slanwey Ltd for the year ended 31/12/2013 [1]

Sales							748,000	[4]
Less Cost of Sales								
Opening Stock					82,900	[4]		
Purchases			409,000	[4]				
Less Purchases Returns			15,800	[4]	393,200			
					476,100			
Closing Stock					44,200	[4]		
Cost of Sales							431,900	
Gross Profit							316,100	[1]
Add Gains								
Discount Received							2,900	[4]
							319,000	
Less Expenses								
Administration [1]								
Directors' Fees			17,000	[4]				
Insurance			8,250	[6]				
Stationery			6,100	[6]				
Wages & Salaries			137,000	[3]				
Depreciation								
Buildings	70,000	[3]						
Office Equipment	7,200	[3]	77,200		245,550			
Selling and Distribution [1]								
Advertising			38,900	[6]				
Increase in BDP			1,650	[6]				
Dep. of Delivery Vans			6,000	[3]	46,550		292,100	
Operating Profit							26,900	
Less Debenture Interest							5,400	[4]
Net Profit for the year							21,500	
Less Taxation							9,000	[2]
							12,500	
Add Profit and Loss Balance 01/01/2013							85,000	[4]
Profit and Loss Balance at 31/12/2013							97,500	[2]

Balance Sheet of Slanwey as at 31/12/2013

Intangible Assets						
Patents					43,000	[2]
Fixed Assets	**Cost**		**Depreciation**		**N.B.V.**	
Buildings	700,000	[2]	155,000	[2]	545,000	
Office Equipment	49,000	[2]	20,200	[2]	28,800	
Delivery Vans	60,000	[2]	16,000	[2]	44,000	
	809,000		191,200		617,800	
					660,800	
Current Assets						
Closing Stock	44,200	[2]				
Stock of Stationery	2,700	[2]	46,900			
Debtors	139,000	[2]				
Less Bad Debt Provision	6,950	[2]	132,050			
Bank			36,200	[2]		
Insurance Prepaid			2,750	[2]		
			217,900			
Creditors: **amounts falling due within 1 year**						
Creditors	31,000	[2]				
VAT	14,200	[2]				
Advertising due	1,600	[2]				
Debenture Interest due	5,400	[2]				
Corporation Tax	9,000	[2]	61,200			
					156,700	
					817,500	
Financed By						
Creditors: **amounts falling due after 1 year**						
6% Debentures					120,000	[2]
Capital and Reserves	**Authorised**		**Issued**			
Ordinary Share Capital	800,000	[1]	600,000	[1]		
Profit and Loss 31/12/13			97,500		697,500	
Capital Employed					**817,500**	

2. Depreciation and Revaluation of Fixed Assets

(a) **[15]**

Buildings Account

		€				€	
01/01/12	Balance b/d	720,000	[6] 01/07/12	Disposal		120,000	[2]
01/06/12	Bank	130,000	[3] 31/12/12	Balance c/d		730,000	
		850,000				850,000	
01/01/13	Balance b/d	730,000	31/12/13	Balance c/d		800,000	[1]
01/01/13	Revaluation	70,000	[3]				
		800,000				800,000	
01/01/14	Balance b/d	800,000					

(b) **[20]**

Provision for Depreciation on Buildings Account

		€				€	
01/07/12	Disposal	50,000	[2]	01/01/12	Balance b/d	86,000	[6]
31/12/12	Balance c/d	74,000		31/12/12	P & L Dep.	38,000	[4]
		124,000				124,000	
01/01/13	Revaluation	74,000	[2]	01/01/13	Balance b/d	74,000	
31/12/13	Balance c/d	32,000	[2]	31/12/13	P & L Dep.	32,000	[4]
		106,000				106,000	
				01/01/14	Balance b/d	32,000	

(c) **[15]**

Disposal of Buildings Account

		€				€	
01/07/12	Buildings	120,000	[4]	01/07/12	Bank	95,000	[4]
	Profit on Disposal	25,000	[3]		Prov. for Dep.	50,000	[4]
		145,000				145,000	

(d) **[10]**

Revaluation Reserve Account

		€				€	
				01/01/13	Buildings	70,000	[5]
				01/01/13	Prov. for Dep.	74,000	[5]
						144,000	

3. Tabular Statement **[60]**

Assets	Oct 1	Oct 4	Oct 7	Oct 12	Oct 15	Oct 18	Oct 20	Oct 21	Totals
Buildings	400,000 [2]								400,000
Delivery Vans	75,000 [2]			+18,000 [2]					93,000 [1]
Stock	49,000 [2]		+14,600 [2]					(5,000) [2]	58,600
Debtors	12,000 [2]				(4,000) [2]				8,000
Bank	31,000 [1]	(300) [2]		(6,000) [2]	3,800 [2]	(1,800) [2]	(520) [3]	6,500 [2]	32,680
Total	**567,000** [1]	**(300)**	**+14,600**	**+12,000**	**(200)**	**(1,800)**	**(520)**	**+1,500**	**592,280**
Liabilities									
Capital	520,000 [2]								520,000
Profit/Loss	28,700 [2]				(200) [2]		+ 80 [3]	+1,500 [2]	30,080 [1]
Drawings						(1,800) [2]			(1,800)
Creditors	18,000 [2]		+14,600 [2]				(600) [3]		32,000
Expenses due	300 [2]	(300) [2]							
Easy Finance Ltd				+12,000 [2]					12,000
Total	**567,000** [1]	**(300)**	**+14,600**	**+12,000**	**(200)**	**(1,800)**	**(520)**	**+1,500**	**592,280**

4. Debtors and Creditors Control Account

[30]

Dr	**Debtors Ledger Control Account**						Cr
		€				€	
01/03/14	Balance b/d	58,300	[2]	01/03/14	Balance b/d	2,100	[2]
	Sales	89,400	[5]		Sales Returns	800	[2]
	Interest charged	2,900	[2]		Discount Allowed	1,600	[2]
	Cheque dishonoured	1,700	[2]		Bills receivable	4,100	[3]
31/03/14	Balance c/d	510	[2]		Bank	66,200	[2]
					Bad Debts w/o	3,500	[2]
					Contra	3,200	[2]
				31/03/14	Balance c/d	71,310	[2]
		152,810				152,810	
01/04/14	Balance b/d	71,310		01/04/14	Balance b/d	510	

[30]

Dr	**Creditors Ledger Control Account**						Cr
		€				€	
01/03/14	Balance b/d	900	[3]	01/03/14	Balance b/d	63,200	[3]
	Purchases Return	1,500	[2]		Purchases	70,100	[5]
	Discount Received	2,800	[2]		Discount disallowed	300	[4]
	Bills payable	2,500	[3]	31/03/14	Balance c/d	740	[2]
	Bank	59,700	[2]				
	Contra	3,200	[2]				
31/03/14	Balance c/d	63,740	[2]				
		134,340				134,340	
01/04/14	Balance b/d	740		01/04/14	Balance b/d	63,740	

5. Interpretation of Accounts **[40]**

(a) (i) Cost of Sales + **Closing Stock** = 358,000
358,000 – X = 336,000
X = 358,000 – 336,000 = 22,000 [10]

(ii) Sales – Cost of Sales = **Gross Profit**
510,000 – 336,000 = 174,000 [10]

(iii) **Rate of Stock Turnover**

$$\frac{\text{Opening Stock + Closing Stock}}{2} \qquad \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

$$\frac{98{,}000 + 22{,}000}{2} = 60{,}000 \qquad \frac{336{,}000}{60{,}000} = 5.6 \text{ times}$$ [4]

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

$$\frac{\text{Creditors}}{\text{Credit Purchases}} \times \frac{365}{1}$$

$$\frac{36{,}000}{260{,}000} \times \frac{365}{1} = 50.54 \text{ days}$$ [8]

(v) **Acid Test Ratio**

Current Assets – Closing Stock	:	CL
63,000 – 22,000	:	36,000
41,000	:	36,000
41	:	36
1.14	:	1

[8]

(b) (i) **4% Debentures 2019/2020** **[40]**

4% = Annual Fixed Rate of Interest 4%
Debenture = Long Term Loan
2019/2020 = Loan must be paid back in full during those years. [10]

(ii) **Shareholders Funds**: The amount of money that belongs to the shareholders in the business made up of:

Issued Share Capital	400,000
Retained Profits of	80,000
Total	480,000

[10]

(iii) **Authorised Share Capital:** The amount of shares that Robinson can issue e.g. 500,000 €1 Ordinary Shares. [10]

(iv) **Trade Creditors**: People from whom you have bought goods on credit and you will pay for them later as in €36,000 above. [10]

(c) **No**: Because Acid Test Ratio is 1.14 : 1, which means that for every €1 they owe they have Liquid Assets of €1.14. **[10]**

(d) $$\frac{\text{Net Profit + Interest}}{\text{Capital Employed}} \times \frac{100}{1} = \frac{80{,}000 + 4{,}000}{580{,}000} \times \frac{100}{1} = 14.48\%$$

Return on Capital Employed has gone from 12% to 14.48% an increase of 2.28%. This is a good return, the business is profitable, you would only get a return of about 3% from a Bank. **[10]**

6. **Club Accounts**

(a) **Accumulated Fund as on 01/01/2013** **[20]**

Assets	**€**		**€**	
Clubhouse/Pitches	430,000	[2]		
Equipment	37,000	[2]		
Investments	15,000	[2]		
Bar Stock	5,200	[2]		
Cash in Hand	19,500	[2]		
			506,700	
Less Liabilities				
Bar Creditors	400	[3]		
Subs Prepaid	900	[3]		
			,300	
Capital/Net Worth 01/01/2011			505,400	[4]

(b) **[8]**

Bar Trading Account for the year ended 31/12/2013

Bar Sales					27,400	**[1]**
Less Cost of Sales						
Opening Stock			5,200	[1]		
Purchases	23,400	[1]				
Add Creditors 31/12/13	1,200	[1]				
	24,600					
Less Creditors 01/01/13	400	[1]	24,200			
			29,400			
Closing Stock			3,600	[1]		
Cost of Sales					25,800	
Bar Profit					**1,600**	**[2]**

(c) **[34]**

Income and Expenditure Account for the year ending 31/12/2013

Income	**€**		**€**	
Bar Profit	1,600	[2]		
Subscriptions (33,900 + 900 +600)	35,400	[6]		
Investment Interest	1,500	[3]		
Annual Sponsorship	14,000	[2]		
Lotto (58,200 – 22,000)	36,200	[5]	88,700	
Less Liabilities				
General Expenses (11,200+700)	11,900	[4]		
Insurance	6,400	[2]		
Dep. of Clubhouse	21,500	[3]		
Dep. of Equipment	10,275	[3]	50,075	
Excess Income over Expenditure			38,625	[4]

(d) **[30]**

Balance Sheet of Superfast Rugby Club as on 31/12/2013

Fixed Assets	**Cost**		**Dep.**		**N.B.V**	
Clubhouse/Pitches	430,000	[2]	21,500	[2]	408,500	[2]
Equipment	41,100	[2]	10,275	[2]	30,825	[2]
	471,100		31,775		439,325	
Investments					15,000	[2]
					454,325	
Current Assets						
Bank	87,400	[2]				
Bar Stock	3,600	[3]				
Subs due	600	[2]	91,600			
Current Liabilities						
Bar Creditors	1,200	[3]				
General Expenses due	700	[3]	1,900			
Working Capital					89,700	
Net Worth					544,025	
Financed By						
Accumulated Fund					505,400	[2]
Excess Income					38,625	[1]
					544,025	

[8]

(e) The closing balance of €87,400 in the Receipts/Payments Account is the amount of money the Club has at the end of the year while the balance of €36,825 in the Income/Expenditure Account is the Profit/Surplus the club has for the year.

7. Cash Flow Statement

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities [30]

	€	
Operating Profit	156,000	[3]
Add Depreciation	59,000	[6]
Decrease in Stock	2,000	[6]
Increase in Debtors	(5,000)	[6]
Increase in Creditors	4,000	[6]
Net Cash inflow from Operating Activities	216,000	[3]

(b) Cash Flow Statement of Wheldon Ltd. For the year ended 31/12/2013 [65]

			€	
Operating Activities [2]				
Net Cash inflow from Operating Activities			216,000	[8]
Return on Investment and Servicing of Finance [2]				
Interest Paid			(12,000)	[6]
Taxation [2]				
Tax Paid			(21,000)	[4]
Capital Expenditure and Financial Investment [2]				
Purchase of Land/Buildings			(150,000)	[8]
Equity Dividend paid [2]				
Dividends paid			(14,000)	[6]
Net cash inflow before liquid resources and financing			19,000	
Financing				
Issue of Ordinary Share Capital	20,000	[6]		
Share Premium	4,000	[6]		
	24,000			
Repayment of Debentures	(50,000)	[6]	(26,000)	
Decrease in Cash			**(7,000)**	[5]

(c) Reconciliation of Net Cash Flow to movement in Net Debt [5]

Decrease in cash in the period	(7,000)	[1]
Cash used to repay debentures	50,000	[1]
Change in Net Debt	43,000	[1]
Net debt 01/01/2012	(176,000)	[1]
Net debt 31/12/2012	(133,000)	[1]

8. Marginal Costing **[80]**

(a) Selling Price per Unit = $\frac{960{,}000}{80{,}000 \text{ units}}$ = **€12 per unit** [14]

(b) Variable cost per unit = $\frac{400{,}000}{80{,}000}$ = **€5 per unit** [14]

(c) Contribution per unit = SP - VC =

€12 - €5 = **€7 per unit** [12]

(d) Break-even point = $\frac{\text{Fixed Costs}}{\text{C.P.U.}}$ = $\frac{73{,}000}{7}$ = **10,429 units** [14]

(e) Margin of Safety = Budgeted Sales – B.E.P.

30,000 – 10,429 = **19,571 units** [12]

Sales Value = 19,571 x €12 = **€234,852**

(f) To achieve a profit of €300,000

$\frac{\text{FC + TP}}{\text{C.P.U}}$ = $\frac{73{,}000 + 300{,}000}{7}$ = $\frac{373{,}000}{7}$ = **53,286 units** [10]

Sales Value = 53,286 x €12 = **€639,432**

(g) Fixed Cost is a cost that does not change with the amounts of units made. It is fixed for a period of time e.g. rent. [4]

9. Cash Budgeting **[80]**

(a) Cash Budget for five months Jan - May 2014 **[58]**

Receipts	**January**	**February**	**March**	**April**	**May**	**Total**
Debtors	76,400 [2]	54,300 [2]	91,100 [2]	78,200 [2]	67,800 [2]	367,800 [1]
Total Receipts	76,400	54,300	91,100	78,200	67,800	367,800
Payments						
Cash for purchases	33,700 [1]	38,100 [1]	82,300 [2]	13,200 [2]	24,300 [1]	191,600 [1]
Wages	18,600 [2]	18,600 [2]	18,600 [2]	18,600 [2]	18,600 [1]	93,000 [1]
Equipment				9,000 [2]		9,000
Rent	3,000 [1]	3,000 [1]	3,000 [1]	3,000 [1]	3,000 [1]	15,000 [1]
Total Payments	55,300	59,700	103,900	43,800	45,900	308,600
Net Cash	21,100 [1]	(5,400) [1]	(12,800)[1]	34,400 [1]	21,900 [1]	59,200 [1]
Opening Cash	28,300 [2]	49,400 [1]	44,000 [1]	31,200 [1]	65,600 [1]	28,300 [2]
Closing Cash	**49,400** [1]	**44,000** [1]	**31,200** [1]	**65,600** [1]	**87,500** [1]	**87,500** [2]

(b) **[18]**

Balance Sheet as at 31/05/2014

					N.B.V	
Fixed Assets						
Fixed Assets (295,000 + 9,000)					304,000	[6]
Current Assets						
Stock	28,300	[2]				
Debtors	83,100	[1]				
Cash	87,500	[2]	198,900			
Current Liabilities						
Creditors			38,500	[1]		
Working Capital					160,400	
Net Worth					464,400	
Financed By						
Capital					400,000	[3]
Add Net Profit					64,400	[3]
					464,400	

[4]

(c) Cash Budget will show her all inflows/outflows of cash flow during the period.

It will show her the cash surplus/deficit at the end of each month and will indicate to her when a bank overdraft maybe needed.

She has a projected closing cash balance of €87,500.

Any specific piece of information from the above prepared cash budget.