L.54/55

Pre-Leaving Certificate Examination, 2015

Accounting

Marking Scheme

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Pre-Leaving Certificate Examination, 2015

Accounting

Ordinary & Higher Level

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Explanation

Convention Used

1. A **dash –** before an answer indicates that the answer is a separate answer, which may be considered as independent of any other suggested answers to the question.

2. A **single forward slash /** before an answer indicates that the answer is synonymous with that which preceded it. Answers separated by a forward slash cannot therefore be taken as different answers.

3. A **double forward slash //** is used to indicate where multiple answers are given but not all are required.

4. **Round brackets ( )** indicate material which is not considered to be essential in order to gain full marks.

5. Answers which are given in this marking scheme should not be considered as the only possible answers that may be accepted. Answers which are synonymous with or equivalent to those in this marking scheme are also acceptable.

6. '*etc.*' is used in this marking scheme to indicate that other answers may be acceptable. In all other cases, only the answer given or 'words to that effect' may be awarded marks.

Current Marking Scheme

Assumptions about these marking schemes on the basis of past SEC marking schemes should be avoided. While the underlying assessment principles remain the same, the exact details of the marking of a particular type of question may vary from a similar question asked by the SEC in previous years in accordance to the contribution of that question to the overall examination in the current year. In setting these marking schemes, we have strived to determine how best to ensure the fair and accurate assessment of students' work and to ensure consistency in the standard of assessment from year to year. Therefore, aspects of the structure, detail and application of the marking schemes for these examinations are subject to change from past SEC marking schemes and from one year to the next without notice.

DEB exams

Pre-Leaving Certificate Examination, 2015

Accounting

Ordinary Level
Marking Scheme (400 marks)

1. Final Accounts of a Sole Trader (120)

(a) Prepare a **Trading** and **Profit and Loss Account** for the year ended 31/12/2014. (80)
(b) Prepare a **Balance Sheet** as at 31/12/2014. (40)

Trading, Profit and Loss Account (of A. Kane)
for the year ended 31/12/2014 (1)

	€	€	€
Sales			716,000 (3)
Less Returns In			(11,100)(3)
			704,900
Less Cost of Sales			
Stock 01/01/2014		25,400 (3)	
Purchases	435,000 (3)		
Less Returns Out	(6,200)(3)		
	428,800		
Add Carriage In	4,400 (3)	433,200	
		458,600	
Less Stock 31/12/2014		(24,000)(3)	(434,600)
Gross Profit			270,300
Less Expenses			
Administration (1)			
Wages/Salaries		106,000 (3)	
General Expenses		18,500 (3)	
Stationery W1		5,500 (5)	
Insurance W2		23,400 (5)	
Depreciation:			
Buildings W3		7,200 (4)	
Office Equipment W4		2,400 (4)	
		163,000	
Selling & Distribution (1)			
Advertising W6		24,000 (5)	
Depreciation:			
Motor Vehicles W5		22,000 (4)	
Inc. in Prov. for Bad Debts W7		840 (5)	
		46,840	
Total Expenses			(209,840)
			60,460
Add Operating Income			
Commission			5,400 (3)
Discount Received			5,900 (3)
Operating Profit			71,760
Less Loan Interest W8			(6,000)(6)
Net Profit for the year			•65,760 (6)

Balance Sheet (of A. Kane)
as at 31/12/2014 (1)

	€ Cost	€ Dep.	€ N.B.V.
Intangible Assets			
Patents			45,000 (2)
Tangible Fixed Assets			
Buildings W3	360,000 (1)	7,200 (2)	352,800
Office Equip. W4	39,000 (1)	17,400 (2)	21,600
Motor Vehicles W5	110,000 (1)	65,000 (2)	45,000
	509,000	89,600	419,400
			464,400
Current Assets			
Stock 31/12/2014		24,000 (2)	
Stock of Stationery W1		700 (2)	
Advertising prepaid W6		8,000 (2)	
Debtors	68,800 (2)		
Less Prov. for B.D.	••(3,440)(2)	65,360	
		98,060	
Creditors: Amounts falling due within 1 year			
Creditors	51,100 (2)		
Bank	13,100 (2)		
VAT	4,600 (2)		
PRSI	11,000 (2)		
Loan Int. due W8	1,800 (2)	(81,600)	
Working Capital			16,460
Total Net Assets			480,860
Financed by:			
Creditors: Amounts falling after more than 1 year			
Term Loan			100,000 (2)
Capital 01/01/2014		340,000 (2)	
Net Profit for the year		••65,760 (2)	
		405,760	
Drawings W9		(24,900)(2)	380,860
Capital Employed			480,860

• Accept correct figure only.
•• Accept student's own consistent figure.

1. Final Accounts of a Sole Trader (cont'd.)

Workings:

		€		
W1	Stationery paid	6,200	**(3)**	
	– Stock 31/12/2014	(700)	**(2)**	
	Total for the year	5,500		(P&L)
W2	Insurance paid	24,300	**(3)**	
	– Drawings	(900)	**(2)**	
	Total for the year	23,400		(P&L)
W3	Buildings			
	Depreciation [2% of €360,000]	•7,200	**(4)**	(P&L)
	• Allow 1m for student's own figure.			
	Accumulated Depreciation	••7,200	**(2)**	(BS)
	•• Allow student's own previous figure.			
W4	Office Equipment			
	Net Book Value [€39,000 – €15,000]	24,000		
	Depreciation [10% of €24,000]	•2,400	**(4)**	(P&L)
	• Allow 1m for student's own figure.			
	Accumulated Depreciation: [€15,000 (1) + ••€2,400 (1)]	••17,400	**(2)**	(BS)
	•• Accept student's own figures for €2,400 and €17,400.			
W5	Motor Vehicles			
	Depreciation [20% of €110,000]	•22,000	**(4)**	(P&L)
	• Allow 1m for student's own figure.			
	Accumulated Depreciation: [(€43,000 (1) + ••€22,000 (1)]	••65,000	**(2)**	(BS)
	•• Accept student's own figures for €22,000 and €65,000.			
W6	Advertising paid	32,000	**(3)**	
	– Advertising prepaid 31/12/2014 [€32,000 × 3/12]	(8,000)	**(2)**	
	Total for the year	24,000		(P&L)
W7	Provision for Bad Debts			
	New Provision [5% of €68,800]	3,440	**(3)**	
	– Old Provision	(2,600)	**(2)**	
	Increase in Provision for Bad Debts	840		(P&L)
W8	Loan Interest			
	Payable [8% of €100,000 × 9/12]	•6,000	**(6)**	(P&L)
	– Loan Interest paid	4,200		
	Loan Interest due	••1,800	**(2)**	(BS)
	• Allow 3m if €4,200 included in determining figure otherwise 1m for student's own figure.			
	•• Accept student's own consistent figure.			
W9	Drawings	24,000	**(1)**	
	+ Private House Insurance	900	**(1)**	
	Total for the year	24,900		(BS)

2. Company Profit and Loss (60)

(a) Show the **Profit and Loss Account** for the year ended 31/12/2014. (35)

(b) Prepare a **Balance Sheet** showing the relevant accounts after making the above provisions and appropriations. (25)

Profit and Loss Account (of Barry Ltd) for the year ended 31/12/2014

	€	€
Net Profit for the year		170,000 (2)
Less: Interest■		(26,000)(5)
Less: Taxation■		(52,000)(5)
Net Profit after Taxation		92,000
Less: Appropriations		
General Reserve■	20,000 (5)	
Ordinary Dividend■ W1	32,000 (5)	
Preference Dividend■ W2	15,000 (5)	(67,000)
Retained Profit for the year		25,000
Retained Profit 01/01/2014		120,000 (5)
Retained Profits carried forward		●● 145,000 (3)

Balance Sheet (Extract) (of Barry Ltd) as at 31/12/2014

	€	€
Creditors: amounts falling due within 1 year (1)■■		
Interest due	●26,000 (4)	
Taxation due	●52,000 (4)	78,000
Financed by:		
Capital and Reserves (1)		
Share Capital	Auth'd.	Issued
Ordinary Shares at €1	600,000 (1)	400,000 (2)
6% Preference Shares at €1	300,000 (1)	250,000 (2)
	900,000	650,000 (1)
Reserves		
General Reserve W3	95,000 (4)	
Profit & Loss Balance	145,000 (4)	240,000
Shareholders' Funds		890,000

● Allow student's own previous figure.
●● Accept correct figure only.
■ Allow 1m for correct word(s) if figure incorrect or omitted.
■■ Allow 'Current Liabilities' as heading.

Workings:

		€	
W1	Ordinary Dividend		
	[€400,000 × 8c]	32,000 (5)	(P&L)
W2	Preference Dividend		
	[6% of €250,000]	15,000 (5)	(P&L)
W3	General Reserve		
	Balance 01/01/2014	75,000 (2)	
	Increase in Reserve	20,000 (2)	
	Balance 31/12/2014	95,000	(BS)

3. Correction of Errors and Suspense Account (60)

(a) Journalise the necessary corrections. (35)

General Journal of D. Carr		
	Dr. €	**Cr. €**
1. Sales **(1)**■	9,000 **(2)**	
Suspense **(1)**■		9,000 **(2)**
Being correction of error in posting the Sales Book total. **(1)**		
2. Bank **(1)**■	300 **(2)**	
Interest **(1)**■		300 **(2)**
Being correction of error in interest received not entered in the books. **(1)**		
3. Orla Brady **(1)**■	2,500 **(2)**	
Sarah Brady **(1)**■		2,500 **(2)**
Being correction of error in purchases credited to Orla Brady instead of Sarah Brady. **(1)**		
4. Drawings/Capital **(1)**■	600 **(2)**	
Purchases **(1)**■		600 **(2)**
Being correction of error in goods taken by the owner not entered in the books. **(1)**		
5. Sales Returns **(1)**■	400 **(2)**	
Suspense **(1)**■		400 **(2)**
Being correction of error in under totting the total in the Sales Returns Book. **(1)**		

■ Allow 1m for correct word(s) even if figure incorrect or omitted.

(b) Prepare a **Statement of Corrected Net Profit** if net profit as per accounts is €18,900. (25)

Statement of Corrected Net Profit			
		€	**€**
Original Net Profit			18,900 **(4)**
Add: Interest	(2)	•300 **(4)**	
Purchases	(4)	•600 **(4)**	900
			19,800
Less: Sales	(1)	•9,000 **(4)**	
Sales Returns	(5)	•400 **(4)**	9,400
Corrected Net Profit			••10,400 **(5)**

• Allow student's previous figure from journal entry.
•• Accept correct figure only.

4. Club Accounts (60)

(a) Prepare a statement showing the club's **Accumulated Fund** on 01/01/2014. (15)

Accumulated Fund of St. Leo's Hurling Club on 01/01/2014

	€		€	
Assets				
Clubhouse/Pitches	640,000	(2)		
Equipment	60,000	(2)		
Members' Subscriptions due	1,500	(2)		
Bar Stock	6,300	(2)		
Investments	7,500	(2)		
Cash in hand	5,250	(2)	720,550	
Less Liabilities				
Expenses due			(750)	(2)
Accumulated Fund 01/01/2014			●●719,800	(1)

●● Accept correct figure only.

(b) Prepare a **Bar Trading Account** for the year ended 31/12/2014. (9)

Bar Trading Account of St Leo's Hurling Club for the year ended 31/12/2014

	€		€	
Sales			57,800	(2)
Less Cost of Sales				
Stock 01/01/2014	6,300	(2)		
Purchases W1	40,120	(3)		
	46,420			
Less Stock 31/12/2014	(8,400)	(2)	(38,020)	
Bar Profit			19,780	

(c) Prepare the club's **Income and Expenditure Account** for the year ended 31/12/2014. (30)

Income and Expenditure Account of St. Leo's Hurling Club for the year ended 31/12/2014

	€		€	
Income				
Bar Profit	●19,780	(2)		
Subscriptions W2	35,600	(6)		
Interest Received	300	(2)		
Annual Sponsorship	15,200	(2)	70,880	
Less Expenditure				
Competition Loss W3	800	(4)		
General Expenses W4	22,200	(6)		
Depreciation:-				
Equipment W5	6,700	(2)		
Clubhouse/Pitches W6	12,800	(2)	(42,500)	
Excess of Income over Expenditure (2)			●●28,380	(2)

● Allow student's own previous figure from Bar Trading Account.
●● Accept correct figure only.

4. Club Accounts (cont'd.)

Workings:

W1 Purchases

	€
Bar Purchases paid	36,800 **(1)**
+ Bar Creditors paid	2,400 **(1)**
+ Bar Creditors 31/12/2014	920 **(1)**
Purchases for the year	40,120

W2 Subscriptions

	€
Subscriptions received	36,400 **(2)**
– Subscriptions due 01/01/2014	(1,500)**(2)**
+ Subscriptions due 31/12/2014	700 **(2)**
Subscriptions for the year	35,600

W3 Competition Loss

	€
Competition Entry Fees	2,500 **(2)**
– Competition Prizes	(3,300)**(2)**
Competition Loss for the year	(800)

W4 General Expenses

	€
Expenses paid	23,500 **(2)**
– Expenses due 01/01/2014	(750)**(2)**
– Expenses prepaid 31/12/2014	(550)**(2)**
General Expenses for the year	22,200

W5 Depreciation of Equipment

	€
[10% of (€60,000 + €7,000)]	6,700 **(2)**

W6 Depreciation of Clubhouse/Pitches

	€
[2% of €640,000]	12,800 **(2)**

(d) Explain the entry 'Annual Sponsorship' in the above Receipts and Payments Account. (6)

– annual sponsorship is where a club receives financial help **(2)** to run the club from businesses **(2)** during the year

– St. Leo's Hurling Club received financial help of €15,200 **(2)**

** Accept other appropriate material.

** Figures in brackets show breakdown of marks if answer incomplete.

5. Interpretation of Accounts (100)

(a) You are required to calculate: (to two decimal places where appropriate.)

(i) The figure for Purchases (10)

=	Cost of Sales	+	Closing Stock	–	Opening Stock	
=	(€880,000 – €245,000)	+	€26,000	–	€35,000	
=	€635,000	+	€26,000	–	€35,000	**(3 + 3 + 3)**
=	€626,000 **(1)**					

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

or

Trading Account for the year ended 31/12/2014

	€	€
Sales		880,000
Less Cost of Sales		
Stock 01/01/2014	35,000 **(3)**	
Purchases	626,000 **(1)**	
	661,000	
Less Stock 31/12/2014	(26,000) **(3)**	635,000 **(3)**
Gross Profit		245,000

(ii) The period of credit given to Debtors (10)

$$= \frac{\text{Debtors}}{\text{Credit Sales}} \times 365 \text{ (or 12)}$$

$$= \frac{36{,}000 \ \textbf{(3)}}{880{,}000 \ \textbf{(3)}} \times 365 \text{ (or 12)} \ \textbf{(2)}$$

$= 14{\cdot}93$ days / $0{\cdot}49$ months **(2)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** Deduct 1m if 'days' or 'months' omitted or final answer not rounded off to two decimal places.
** Allow 2m for correct formula if no other marks awarded.

(iii) The percentage mark-up on cost (10)

$$= \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times \frac{100}{1}$$

$$= \frac{245{,}000 \ \textbf{(3)}}{635{,}000 \ \textbf{(3)}} \times \frac{100}{1} \ \textbf{(2)}$$

$= 38{\cdot}58\%$ **(2)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** Deduct 1m if '%' symbol omitted or final answer not rounded off to two decimal places.
** Allow 2m for correct formula if no other marks awarded.

(iv) Return on Capital Employed (10)

$$= \frac{\text{Operating Profit}}{\text{Capital Employed}} \times \frac{100}{1} \quad \text{or} \quad \frac{\text{Net Profit + Interest}}{\text{Capital Employed}} \times \frac{100}{1}$$

$$= \frac{(79{,}000 + 9{,}600) \ \textbf{(2+2)}}{759{,}000 \ \textbf{(2)}} \times \frac{100}{1} \ \textbf{(2)}$$

$$= \frac{88{,}600}{759{,}000} \times \frac{100}{1}$$

$= 11{\cdot}67\%$ **(2)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** Deduct 1m if '%' symbol omitted or final answer not rounded off to two decimal places.
** Allow 2m for correct formula if no other marks awarded.

5. Interpretation of Accounts (cont'd.)

(b) **Explain** the following terms and state how they apply to the above Balance Sheet:

(i) 8% Debentures (2020/2021) (10)

- long-term **(1)** loans **(1)** of €120,000 **(1)**
- must be repaid **(1)** in full **(1)** during the years 2020/2021 **(1)**
- fixed **(1)** rate of interest **(1)** of 8% **(1)** which is paid annually **(1)**

** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Issued Share Capital (10)

- the amount of shares **(2)** issued **(2)** by Bow Ltd **(2)**
- 560,000 **(2)** Ordinary Shares **(2)**

** Figures in brackets show breakdown of marks if answer incomplete.

(iii) Debtors (10)

- people who are sold goods **(2)** on credit **(2)** by Bow Ltd **(2)** and who will pay for them later **(2)**
- €36,000 (in above accounts) **(2)**

** Figures in brackets show breakdown of marks if answer incomplete.

(iv) Capital Employed (10)

- total amount invested in the business **(4)**
- made up of Issued Share Capital **(1)** €560,000 **(1)** plus Reserves **(1)** €79,000 **(1)** and Long-term Liabilities **(1)** €120,000 **(1)**

** Figures in brackets show breakdown of marks if answer incomplete.

(c) (i) Calculate the Acid Test Ratio for 2014. (5)

= (98,000 – 26,000) : 59,000 **(1 + 1 + 1)**
= 72,000 : 59,000
= 1·22 : 1 **(2)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** Allow 2m for correct formula if no other marks awarded.

(ii) What does this ratio tell us? (5)

- that for every €1 owed **(1)**, the company has liquid assets of €1·22 **(2)**
- this is better **(1)** than the recommended ratio of 1:1 **(1)**

** Accept student's own explanation consistent with ratio.
** Figures in brackets show breakdown of marks if answer incomplete.

5. Interpretation of Accounts (cont'd.)

(d) The Return on Capital Employed for **2013** was 10%.
Comment on the profitability of Bow Ltd in **2014**. (10)

- ROCE (2013) = 10% **(1)**
- ROCE (2014) = 11·67%• **(1)**
- Return on Capital Employed has increased **(2)** by 1·67%•• **(2)**
- excellent return **(2)** as shareholders / investors would have only received approximately 1-2% **(1)** from a bank / risk-free investment **(1)**

• Accept student's own figure consistent with previous work.
•• Accept student's own consistent figure.

** Accept student's own comment consistent with ratio.
** Figures in brackets show breakdown of marks if answer incomplete.

NOTES:

6. Incomplete Records – Control Accounts (100)

(a) Calculate Frank Bell's **Capital** on 01/01/2014. (10)

Capital on 01/01/2014

	€	€
Assets		
Premises	490,000 (1)	
Delivery Vans	66,000 (1)	
Debtors	14,800 (1)	
Stock	15,300 (1)	
Cash	33,500 (2)	619,600
Less Liabilities		
Creditors	7,600 (1)	
Expenses due	1,400 (1)	(9,000)
Capital on 01/01/2014		••610,600 (2)

•• Accept correct figure only.

(b) Calculate Frank Bell's **Total Sales** and **Total Purchases** using **Control Accounts**.

Total Sales (10)

Debtors Control Account

Date	Details	€	Date	Details	€
01/01/2014	Balance b/d	14,800 (2)	31/12/2014	Cash	62,300 (2)
31/12/2014	Credit Sales	64,900 (1)	31/12/2014	Balance c/d	17,400 (2)
		79,700			79,700

Total Sales:	Credit Sales	64,900
	Cash Sales	274,000 (3)
	Total Sales	338,900

Total Purchases (10)

Creditors Control Account

Date	Details	€	Date	Details	€
31/12/2014	Cash	48,400 (2)	01/01/2014	Balance b/d	7,600 (2)
31/12/2014	Balance c/d	8,800 (2)	31/12/2014	Credit Purchases	49,600 (1)
		57,200			57,200

Total Purchases:	Credit Purchases	49,600
	Cash Purchases	108,500 (3)
	Total Purchases	158,100

(c) Prepare a **Trading and Profit and Loss Account** for the year ended 31/12/2014. (30)

Trading, Profit and Loss Account (of Frank Bell)
for year ended 31/12/2014

	€	€
Sales		•338,900 (3)
Less Cost of Sales		
Stock 01/01/2014	15,300 (3)	
Add Purchases	•158,100 (3)	
	173,400	
Less Stock 31/12/2014	(11,800)(3)	
		(161,600)
Gross Profit		177,300
Less Expenses		
Wages & Gen. Expenses W1	72,950 (6)	
Deprec: Delivery Vans W2	••13,200 (4)	(86,150)
		91,150
Add		
Commission Received		9,600 (4)
Net Profit		••100,750 (4)

• Accept student's own consistent figure.
•• Accept correct figure only.

(d) Prepare a **Balance Sheet** as at 31/12/2014. (40)

(d) Balance Sheet (of Frank Bell)
as at 31/12/2014

	€	€	€
Fixed Assets	Cost	Dep.	N.B.V.
Premises	490,000	—	490,000 **(2)**
Delivery Vans	66,000 **(2)**	•13,200 **(4)**	•52,800 **(2)**
Equipment	16,500	—	16,500 **(2)**
	572,500	13,200	559,300
Current Assets			
Stock 31/12/2014		11,800 **(4)**	
Debtors		17,400 **(4)**	
Bank [€379,400 – €264,200]		115,200 **(6)**	
		144,400	
Less Creditors: Amounts falling due within 1 year			
Creditors	8,800 **(4)**		
Expenses due	1,750 **(4)**	(10,550)	
Working Capital			133,850
Net Current Assets			693,150
Financed by:			
Capital 01/01/2014			•610,600 **(2)**
Add Net Profit			•100,750 **(2)**
			711,350
Less Drawings			(18,200)**(2)**
Capital Employed			693,150

• Accept student's own consistent figure.

Workings:

		€
W1	Wages and General Expenses paid	72,600 **(2)**
	– Expenses due 01/01/2014	(1,400)**(2)**
	+ Expenses due 31/12/2014	1,750 **(2)**
	Total for the year	72,950
W2	Depreciation:	
	Delivery Vans [20% of €66,000]	13,200 **(4)**

7. Cash Flow Statement (100)

(a) **Reconcile** the Operating Profit to Net Cash Inflow from operating activities. (30)

Reconciliation of Operating Profit to Net Cash Inflow
from Operating Activities

	€	€
Operating Profit		94,000 (3)
Depreciation charges for the year (3)■	25,000 (3)	
Increase in Stock (3)■	(16,000)(3)	
Increase in Debtors (3)■	(3,000)(3)	
Increase in Creditors (3)■	4,000 (3)	10,000
Net Cash Inflow from Operating Activities		●●104,000 (3)

●● Accept correct figure only.

■ Allow 3m for correct word(s) even if figure is incorrect or omitted.

(b) Prepare the **Cash Flow Statement** of Black Ltd for the year ended 31/12/2014 using the following headings:

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. (65)

Cash Flow Statement (of Black Ltd)
for the year ended 31/12/2014

	€	€
Operating Activities (2)		
Net Cash Inflow from Operating Activities		●104,000 (4)
Return on Investments and Servicing of Finance (2)		
Interest paid (2)■		(9,000)(6)
Taxation (2)		
Tax paid (2)■		(18,000)(4)
Capital Expenditure and Financial Investment (2)		
Purchase of Land and Buildings / Fixed Assets (2)■		(55,000)(4)
Equity Dividends Paid (2)		
Dividends paid (2)■		(29,000)(4)
Net Cash Outflow before Liquid Resources and Financing		(7,000)
Financing (2)		
Issue of Ordinary Share Capital (2)■	32,000 (4)	
Issue of Share Premium (2)■	8,000 (4)	
	40,000	
Repayment of Debentures (2)■	(30,000)(4)	10,000
Increase in Cash		●●3,000 (5)

● Accept student's own figure consistent with previous work.

●● Accept correct word(s) with correct figure only.

■ Allow 2m for correct word(s) even if figure is incorrect or omitted.

7. Cash Flow Statement (cont'd.)

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

Reconciliation of Net Cash Flow to Movement in Net Debt

	€	
Increase in cash during period	•3,000	**(1)**
Cash used to repay Debentures	•30,000	**(1)**
Change in Net Debt	••33,000	**(1)**
Net Debt at 01/01/2014	(166,000)	**(1)**
Net Debt at 31/12/2014	••(133,000)	**(1)**

• Accept student's own figure consistent with previous work.

•• Accept student's own consistent figure.

8. Absorption Costing (80)

(a) You are required to:

(i) Calculate the overhead absorption rate per **Direct Labour Hour**. (15)

$$= \frac{\text{Budgeted Factory Overheads}}{\text{Budgeted Labour hours}}$$

$$= \frac{99{,}000 \ \mathbf{(6)}}{12{,}000 \ \mathbf{(6)}}$$

= €8·25 per direct labour hour **(3)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

(ii) Calculate the overhead absorption rate per **Machine Hour**. (15)

$$= \frac{\text{Budgeted Factory Overheads}}{\text{Budgeted Machine hours}}$$

$$= \frac{99{,}000 \ \mathbf{(6)}}{15{,}000 \ \mathbf{(6)}}$$

= €6·60 per machine hour **(3)**

** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

(b) Calculate the cost of Job No. 614 using the overhead absorption rate per **Direct Labour Hour**. (16)

		€	
Direct Materials		18,000	**(2)**
Direct Labour	(€114,000 ÷ 12,000 × 240 hours)	•2,280	**(6)**
Factory Overheads	(240 hours × €8·25)	•1,980	**(6)**
Total Cost		••22,260	**(2)**

• Allow 3m for 240 hours if figure incorrect.
•• Accept correct figure only.
** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

(c) Calculate the cost of Job No. 614 using the overhead absorption rate per **Machine Hour**. (16)

		€	
Direct Materials		18,000	**(2)**
Direct Labour	(€114,000 ÷ 12,000 × 240 hours)	•2,280	**(6)**
Factory Overheads	(360 hours × €6·60)	•2,376	**(6)**
Total Cost		••22,656	**(2)**

• Allow 3m for 240/360 hours if figure incorrect.
•• Accept correct figure only.
** Full marks awarded for correct answer even if no workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

(d) Calculate the **selling price** of Job No. 614 to the customer using **Labour** overhead absorption rate (as calculated in part **(a)**(i) above and assuming a mark-up of 20% on cost). (10)

		€
Total cost		•22,260 **(4)**
Mark-up	(20% of cost)	•4,452 **(4)**
Selling Price		••26,712 **(2)**

• Accept student's own figure consistent with previous work.
•• Accept correct figure only.

** Full marks awarded for correct answer even if no workings or wrong workings are shown.
** Figures in brackets show breakdown of marks if answer incorrect.
** No deduction if '€' symbol omitted.

(e) Outline **two** reasons why a business needs to calculate the cost price of a product. (8)

Any 2: **(2 × 4)**

– to determine a suitable selling price (2) to make a profit (2) //
– to see if the product is worthwhile producing (3) or not (1) // *etc*.

** Accept other appropriate answers.
** Figures in brackets show breakdown of marks if answer incomplete.

9. Product Budgeting (80)

(a) Sales Budget in **units** and **€** (16)

	Static		Mobile	
Budgeted Sales (units)	1,600	(3)	1,100	(3)
Budgeted Selling Price (€)	× 390	(3)	× 490	(3)
Budgeted Sales (€)	624,000	(2)	539,000	(2)

(b) **Production** Budget (16)

	Static		Mobile	
Budgeted Sales (units)	1,600	(2)	1,100	(2)
Add Budgeted Closing Stock (units)	100	(2)	80	(2)
	1,700		1,180	
Less Budgeted Opening Stock (units)	(120)	(2)	(90)	(2)
Budgeted Production (units)	1,580	(2)	1,090	(2)

(c) **Material Usage** Budget (16)

			Material X			Material Y	
Static	(•1,580 units)	(× 5)	7,900	(3)	(× 8)	12,640	(3)
Mobile	(•1,090 units)	(× 7)	7,630	(3)	(× 9)	9,810	(3)
Budgeted Material Usage (m^2)			••15,530	(2)		••22,450	(2)

• Allow marks for student's own figures under 'Budgeted Production (units)' for Static (1,580) and Mobile (1,090) if consistent with previous work.

•• Allow marks for final answers under 'Budgeted Material Usage (m^2)' for Material X (15,530) and Material Y (22,450) if consistent with previous work.

(d) **Material Purchases** Budget in **units** and **€** (16)

	Material X		Material Y	
Budgeted Material Usage (m^2)	•15,530	(2)	•22,450	(2)
Add Budgeted Closing Stock (m^2)	830	(2)	550	(2)
	16,360		23,000	
Less Budgeted Opening Stock (m^2)	(720)	(2)	(630)	(2)
Materials Purchases Budget (m^2)	15,640		22,370	
Budgeted Purchase Price (€)	× 4	(1)	× 6	(1)
Material Purchases Budget (€)	••62,560	(1)	••134,220	(1)

• Allow marks for student's own figures under 'Budgeted Material Usage (m^2)' for Material X (15,530) and Material Y (22,450) if consistent with previous work.

•• Allow marks for final answers under 'Material Purchases Budget (€)' for Material X (62,560) and Material Y (134,220) if consistent with previous work.

(e) **Labour** (wages) Budget (10)

❶

	Static		Mobile	
Budgeted Production (units)	•1,580	**(1)**	•1,090	**(1)**
Direct labour time in hours	× 7	**(1)**	× 9	**(1)**
Budgeted direct labour (hours)	11,060	**(1)**	9,810	**(1)**
Direct labour rate per hour	× €11	**(1)**	× €11	**(1)**
	121,660		107,910	
Direct Labour Budget (€)			••229,570	**(2)**

or

❷

Budgeted Production (units)		
Static [•1,580 × 7 hours]	11,060	**(3)**
Mobile [•1,090 × 9 hours]	9,810	**(3)**
Budgeted direct labour (hours)	20,870	
Direct labour rate per hour	× €11	**(2)**
Direct Labour Budget (€)	••229,570	**(2)**

• Allow marks for student's own figures under 'Budgeted Production (units)' for Static (1,580) and Mobile (1,090) if consistent with previous work.

•• Accept correct figure only.

(f) Outline **three** benefits for Fair Ltd in preparing a Production Budget. (6)

Any 3: **(3 × 2)**

– to tell the number of units of a product that should be produced in order to meet sales demand //
– to tell the number of units of a product that should be produced in order to satisfy stock requirements //
– to ensure that the necessary quantities of the appropriate materials are purchased so that there is sufficient stocks available for production //
– to help management plan and control production within the business // *etc.*

** Accept other appropriate answers.

NOTES:

Pre-Leaving Certificate Examination, 2015

Accounting

Higher Level
Marking Scheme (400 marks)

1. Company Final Accounts including a Manufacturing Account (120)

(a) Prepare a Manufacturing, Trading and Profit and Loss Account for the year ended 31/12/2014. (75)

(b) Prepare a Balance Sheet as at 31/12/2014. (45)

Manufacturing Account (of Cahill Ltd) for the year ended 31/12/2014 (1) (30)

	€	€
Stock of Raw Materials 01/01/2014		47,900 (1)
Purchases of Raw Materials W1	348,200 (5)	
Carriage on Raw Materials	8,500 (3)	356,700
		404,600
Less Stock of Raw Materials 31/12/2014		(45,100)(1)
Cost of Raw Materials Consumed		359,500
Hire of Special Equipment	7,500 (1)	
Direct Factory Wages W2	200,600 (3)	208,100
Prime Cost		567,600
Factory Overheads		
General Factory Overheads	48,300 (1)	
Deprec: Plant & Machinery■ W3	30,100 (3)	
Repairs to Plant & Machinery	4,500 (1)	82,900
Factory Cost		650,500
Add Work in Progress 01/01/2014		21,400 (1)
		671,900
Less Work in Progress 31/12/2014		(28,200)(1)
		643,700
Less Sale of Scrap Materials	(5,500)(2)	
Less Profit on Sale of Mach.■ W4	(1,100)(6)	(6,600)
Cost of Manufacture		637,100

Trading, Profit and Loss Account (of Cahill Ltd) for the year ended 31/12/2014 (45)

	€	€
Sales W7		997,500 (4)
Less Cost of Sales		
Stock of Finished Goods 01/01/2014	83,200 (2)	
Cost of Manufacture	•637,100 (2)	
Cost of Goods Available for Sale	720,300	
Less Stock of Fin. Gds. 31/12/2014 W8	(91,800)(6)	
Cost of Goods Sold		(628,500)
Gross Profit		369,000
Less Expenses		
Administration Expenses		
Administration Expenses W9	30,200 (6)	
Selling & Distribution Expenses■■		
Selling Expenses W10	105,800 (4)	
Bad Debt written off W11	2,100 (3)	
Provision for Bad Debts■ W13	1,800 (2)	(139,900)
		229,100
Operating Income		
Discount (Net)■ W14		3,400 (4)
Operating Profit		232,500
Investment Income■ W15		3,000 (2)
Debenture Interest■ W17		(14,400)(2)
Net Profit		221,100
Less Dividends paid		(12,500)(2)
Retained Profit		208,600
Profit & Loss Balance 01/01/2014		24,200 (2)
Profit & Loss Balance 31/12/2014		••232,800 (4)

Balance Sheet (of Cahill Ltd) as at 31/12/2014 (45)

	€ Cost	€ Dep.	€ NBV
Intangible Fixed Assets			
Patents			35,000 (1)
Tangible Fixed Assets			
Factory Buildings	450,000 (2)	70,000 (1)	380,000
Plant & Mach.■ W5, 6	206,000 (2)	73,000 (3)	133,000
	656,000	143,000	513,000
Financial Fixed Assets			
3% Investments			150,000 (1)
			698,000
Current Assets			
Stocks 31/12/2014			
Raw Materials	45,100 (2)		
Work in Progress	28,200 (2)		
Finished Goods	•91,800 (2)	165,100	
Debtors W12, 13	36,000 (6)		
Less Prov. Bad Debts	•(1,800)(2)	34,200	
Invest. Income due■ W16		1,500 (2)	
		200,800	
Less Creditors: amounts falling due within 1 year			
Creditors W19	22,040 (3)		
Bank W20	28,360 (5)		
VAT	6,000 (2)		
Deb. Int. due■ W18	9,600 (2)	(66,000)	
Net Current Assets			134,800
Total Net Assets			832,800
Financed by:			
Creditors: amounts falling due after more than 1 year			
8% Debentures			180,000 (1)
Capital and Reserves	Auth'd.	Issued	
Ord. Shares @ €1	400,000 (1)	230,000 (1)	
5% Pref. Shares @ €1	250,000 (1)	190,000 (1)	
	650,000	420,000	
Profit & Loss Balance		•232,800 (2)	652,800
Capital Employed			832,800

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.
■ Allow 1m for correct word(s) if figure is incorrect or omitted.
■■ Deduct 1m for each missing heading.

Workings:

			€
W1	Purchases of Raw Materials		382,800 (1)
	– Materials used in building		(2,600)(2)
	– Net amount of new machine		(32,000)(2)
	Figure transferred to Manufacturing a/c		348,200
W2	Direct Factory Wages		202,500 (1)
	– Repairs wages		(1,900)(2)
	Figure transferred to Manufacturing a/c		200,600
W3	Depreciation: Plant and Machinery		
	Depreciation charge for year		
	[15% of (€190,000 – €24,000)]		24,900 (1)
	[15% of €24,000 × 4/12]		1,200 (1)
	[15% of €40,000 × 8/12]		4,000 (1)
	Figure transferred to Manufacturing a/c		30,100
W4	Profit on Sale of Machinery		
	Depreciation to date:		
	[15% of €24,000 × 5/12] (5 months)		1,500
	[15% of €24,000 × 4] (4 years)		14,400
	[15% of €24,000 × 4/12] (4 months)		1,200
	Total depreciation to date of sale		17,100
	Allowance for New Machinery		8,000 (1)
	Cost of Old Machinery	24,000 (1)	
	– Depreciation to date	(17,100)(3)	
	Book value on date of sale		(6,900)(1)
	Figure transferred to Manufacturing a/c		1,100
W5	Plant and Machinery		
	Cost of Plant and Machinery		190,000 (1)
	– Disposal of Machinery (cost 31/7/2009)		(24,000)
	+ Purchase of Machinery (cost 30/04/2014)		40,000
	Figure transferred to Balance Sheet		206,000 (1)
W6	Depreciation: Plant and Machinery		
	Accumulated Depreciation at 01/01/2014		60,000 (1)
	+ Depreciation charge for year		•30,100 (1)
	– Depreciation of machinery to date of sale		•(17,100)(1)
	Figure transferred to Balance Sheet		73,000
	• Allow student's own previous figure.		
W7	Sales		1,005,000 (2)
	– Goods on 'Sale or Return' basis		(7,500)(2)
	Figure transferred to Trading a/c		997,500
W8	Stock of Finished Goods 31/12/2014		86,600 (2)
	+ Goods on 'Sale or Return' basis		
	[€7,500 ÷ 125 × 100]		6,000 (2)
	– Finished Goods written down		
	Value w/o [€3,500 – €2,700]		(800)(2)
	Figure transferred to Trading a/c		91,800
W9	Administration Expenses		31,100 (2)
	– Deb. Interest error [€4,800 – €4,500]		(300)(2)
	– Discount Allowed error		(600)(2)
	Figure transferred to Profit & Loss a/c		30,200

		€
W10	Selling Expenses	104,300 (2)
	– Investment Income incorporated	
	[3% of €150,000 × 4/12]	1,500 (2)
	Figure transferred to Profit & Loss a/c	105,800
W11	Bad Debt written off	
	Value of Debtor [€700 ÷ 25 × 100]	2,800 (2)
	– Payment received [25c in the €1]	700 (1)
	Figure transferred to Profit & Loss a/c	2,100
W12	Debtors	46,300 (2)
	– Goods on 'Sale or Return' basis	(7,500)(2)
	– Bad Debt	(2,800)(2)
	Figure transferred to Balance Sheet	36,000
W13	Provision for Bad Debts	
	New provision [5% of €36,000]	•1,800
	Figure transferred to Profit & Loss a/c	•1,800 (2)
	Figure transferred to Balance Sheet	•1,800 (2)
	• Allow student's own previous figure.	
W14	Discount (Net)	4,000 (2)
	– Discount Allowed omitted	(600)(2)
	Figure transferred to Profit & Loss a/c	3,400
W15	Investment Income	
	Income receivable for 8 months	
	[3% of €150,000 × 8/12]	3,000 (2)
	Figure transferred to Profit & Loss a/c	3,000
W16	Investment Income due	
	Investment Income receivable	•3,000 (1)
	– Investment Income paid	(1,500)(1)
	Figure transferred to Balance Sheet	1,500
	• Allow student's own previous figure.	
W17	Debenture Interest	
	Debenture Interest charge for the year	
	[8% of €180,000] (full year)	14,400 (2)
	Figure transferred to Profit & Loss a/c	14,400
W18	Debenture Interest due	
	Debenture Interest payable	•14,400 (1)
	Debenture Interest paid [€4,500 + €300]	(4,800)(1)
	Figure transferred to Balance Sheet	9,600
	• Allow student's own previous figure.	
W19	Creditors	22,400 (1)
	– Payment understated [€840 – €480]	(360)(2)
	Figure transferred to Balance Sheet	22,040
W20	Bank	28,700 (1)
	+ Payment understated [€840 – €480]	360 (2)
	– Credit Transfer	(700)(2)
	Figure transferred to Balance Sheet	28,360

2. Debtors Control Account (60)

(a) Prepare the Adjusted Debtors Ledger Control Account. (24)

Adjusted Debtors Ledger Control Account

Date	Details	€	Date	Details	€
	Balance b/d	●●26,400 (2)		Balance b/d	●●700 (1)
	Discount Disallowed (2)■ (i)	160 (2)		Sales Returns (2)■ (iv)	75 (2)
	Interest (2)■ (ii)	10 (2)			
	Sales Understated (2)■ (v)	180 (2)			
	Bad Debt Recoverable (2)■ (vi)	105 (2)			
	Balance c/d	700 (1)		Balance c/d	26,780
		27,555			27,555
	Balance b/d	26,780		Balance b/d	●●700

●● Accept correct figure only.

■ Allow 2m for correct word(s) <u>even</u> if figure is incorrect or omitted.

(b) Prepare the Adjusted Schedule of Debtors showing the original balance. (28)

Adjusted Schedule of Debtors

			€	€
Balance as per list of Debtors [€26,195 – €5,645]				●●20,530 (3)
Add	Discount Disallowed (2)■	(i)	440 (2)	
	Interest on Account (2)■	(ii)	200 (2)	
	Sales - Cash and Credit (2)■	(iii)	3,280 (2)	
	Invoice (2)■	(v)	1,640 (2)	
	Bad Debt Recoverable (2)■	(vi)	105 (2)	5,665
				26,195
Less	Credit Note (2)■	(iv)		(115)(2)
Net balance as per adjusted Control Account				●26,080 (1)

● Allow full marks for student's own figure, but must be '–700'.
●● Accept correct figure only.
■ Allow 2m for correct word(s) <u>even</u> if figure is incorrect or omitted.

(c) (i) Explain the importance of Control Accounts. (4)

Any 2: **(2 × 2)**

- to check on the accuracy of ledgers / figures related to creditors / debtors (1) by comparing the balance in the control account with the balance in the schedule (1) //
- to locate errors quickly (1) and to narrow search for errors to confined areas (1) //
- to find credit sales or credit purchases (1) from incomplete records (1) //
- to find amounts owed by debtors and amounts owed to creditors (1) to be ascertained quickly by simply balancing the control account (1)

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Give **two** reasons why the balance in the Debtors Control Account may not agree with the balance in the Schedule of Debtors. (4)

Any 2: **(2 × 2)**

- error(s) either in the control account or in the schedule (1) but not in the other (1) //
- failure to complete double entries (1) in the ledgers (1) //
- incorrect totalling of subsidiary books (1) sent to control account (1) // *etc*.

** Accept other appropriate answers.
** Figures in brackets show breakdown of marks if answer incomplete.

3. Revaluation of Fixed Assets (60)

(a) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31 December 2010 to 31 December 2014.
(Bank Account and Profit and Loss Account **not** required).

Land and Buildings Account (13)

Date	Details	€	Date	Details	€
01/01/2010	Balance b/d	700,000 (1)			
01/01/2010	Revaluation Reserve (1)■	175,000 (1)	31/12/2010	Balance c/d	875,000
		875,000			875,000
01/01/2011	Balance b/d	875,000	01/01/2011	Disposal	340,000 (1)
			31/12/2011	Balance c/d	535,000
		875,000			875,000
01/01/2012	Balance b/d	535,000 (1)			
01/01/2012	Bank	470,000 (1)			
	Bank	80,000 (1)			
	Wages	60,000 (1)	31/12/2012	Balance c/d	1,145,000
		1,145,000			1,145,000
01/01/2013	Balance b/d	1,145,000			
01/01/2013	Revaluation Reserve (1)■	229,000 (1)	31/12/2013	Balance c/d	1,374,000
		1,374,000			1,374,000
01/01/2014	Balance b/d	1,374,000	01/01/2014	Disposal	642,000 (1)
01/01/2014	Revaluation Reserve (1)■	88,000 (1)	31/12/2014	Balance c/d	820,000
		1,462,000			1,462,000
01/01/2015	Balance b/d	820,000			

- ● Allow full marks for student's own figure if consistent with previous work.
- ■ Allow 1m for correct word(s) <u>even</u> if figure is incorrect or omitted.
- ■■ Allow 50% of earned marks for complete reversal of sides.

Provision for Depreciation on Buildings Account (18)

Date	Details	€	Date	Details	€
01/01/2010	Revaluation Reserve	●36,000 (1)	01/01/2010	Balance b/d	36,000 (2)
31/12/2010	Balance c/d	10,700	31/12/2010	Profit and Loss a/c (1)■	10,700 (1)
		46,700			46,700
			01/01/2011	Balance b/d	10,700
31/12/2011	Balance c/d	21,400	31/12/2011	Profit and Loss a/c (1)■	10,700 (1)
		21,400			21,400
			01/01/2012	Balance b/d	21,400
31/12/2012	Balance c/d	44,300	31/12/2012	Profit and Loss a/c	22,900 (1)
		44,300			44,300
01/01/2013	Revaluation Reserve	●44,300 (2)	01/01/2013	Balance b/d	44,300
31/12/2013	Balance c/d	27,480	31/12/2013	Profit and Loss a/c (1)■	27,480 (1)
		71,780			71,780
01/01/2014	Disposal (1)■	●12,840 (1)	01/01/2014	Balance b/d	27,480
01/01/2014	Revaluation Reserve (1)■	14,640 (2)	31/12/2014	Profit and Loss a/c	16,400 (1)
31/12/2014	Balance c/d	16,400			
		43,880			43,880
			01/01/2015	Balance b/d	16,400

- ● Allow full marks for student's own figure if consistent with previous work.
- ■ Allow 1m for correct word(s) <u>even</u> if figure is incorrect or omitted.
- ■■ Allow 50% of earned marks for complete reversal of sides.

3. Revaluation of Fixed Assets (cont'd.)

(a) Relevant ledger accounts (cont'd.)

Disposal of Land Account (3)

Date	Details	€	Date	Details	€
01/01/2011	Land	340,000 (1)	01/01/2011	Bank	375,000 (1)
31/12/2011	Profit & Loss a/c	••35,000 (1)			
		375,000			375,000

•• Allow full marks for student's own figure which balances account.

Disposal of Buildings Account (4)

Date	Details	€	Date	Details	€
01/01/2014	Buildings	•642,000 (1)	01/01/2014	Depreciation	•12,840 (1)
31/12/2014	Profit & Loss a/c	••10,840 (1)	01/01/2014	Bank	640,000 (1)
		652,840			652,840

• Allow full marks for student's own figure if consistent with previous work.
•• Allow full marks for student's own figure which balances account.

Revaluation Reserve Account (12)

Date	Details	€	Date	Details	€
01/01/2010	Revenue Reserve	90,000 (1)	01/01/2010	Land and Buildings	175,000 (1)
31/12/2010	Balance c/d	121,000	01/01/2010	Provision for depreciation	•36,000 (1)
		211,000			211,000
			01/01/2011	Balance b/d	121,000
31/12/2011	Balance c/d	121,000			
		121,000			121,000
			01/01/2012	Balance b/d	121,000
31/12/2012	Balance c/d	121,000			
		121,000			121,000
01/01/2013	Revenue Reserve (1)▪	260,100 (1)	01/01/2013	Balance b/d	121,000
			01/01/2013	Land and Buildings	•229,000 (1)
31/12/2013	Balance c/d	134,200	01/01/2013	Provision for depreciation	•44,300 (1)
		394,300			394,300
			01/01/2014	Balance b/d	134,200
			01/01/2014	Land and Buildings	•88,000 (1)
31/12/2014	Balance c/d (1)▪	236,840 (2)	01/01/2014	Provision for depreciation	•14,640 (1)
		236,840			236,840
			01/01/2015	Balance b/d	236,840

• Allow full marks for student's own figure if consistent with previous work.
▪ Allow 1m for correct word(s) even if figure is incorrect or omitted.

3. Revaluation of Fixed Assets (cont'd.)

(a) Relevant ledger accounts (cont'd.)

Revenue Reserve Account (2)

Date	Details	€	Date	Details	€
			01/01/2010	Revaluation Reserve	•90,000 **(1)**
31/12/2014	Balance c/d	350,100	01/01/2013	Revaluation Reserve	•260,100 **(1)**
		350,100			350,100
			01/01/2015	Balance b/d	350,100

• Allow full marks for student's own figure if consistent with previous work.

(b) (i) Show the relevant extract from the Balance Sheet as at 31/12/2014. (5)

Balance Sheet (extract) as at 31/12/2014

	€	€	€
Fixed Assets	Cost	Dep.	NBV
Land and buildings	820,000 **(1)**	•16,400 **(1)**	803,600
Capital and Reserves			
Revaluation Reserve **(1)**••		•236,840 **(1)**	
Revenue Reserve		•350,100 **(1)**	586,940

• Allow full marks for student's own figure if consistent with previous work.
•• Award 1m for 'Revaluation Reserve' but must be before 'Revenue Reserve'.

(ii) What factors are taken into account in arriving at an annual depreciation charge? (3)

Any 3: **(3 × 1)**

– cost of the asset //
– useful / estimated life of the asset //
– estimated residual / scrap / obsolescence value of the asset //
– appropriate method of depreciation //
– lifecycle of product //
– legal limits / requirements // *etc.*

** Accept other appropriate answers.

4. Farm Accounts (60)

(a) Prepare a Statement of Capital for the farm on 01/01/2014. (20)

(b) Prepare an Enterprise Analysis Account for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/2014. (20)

(c) Prepare a general Profit and Loss Account for the year ended 31/12/2014. (12)

Statement of Capital
(of D. and S. Carty) on 01/01/2014

	€	€
Assets		
Land and Buildings		425,000 (1)
Machinery		90,000 (1)
Investments [700 ÷ 6 × 12 ÷ 2/100]		•70,000 (3)
Cattle		80,000 (1)
Sheep		25,000 (1)
Milk cheque due		1,800 (1)
Stock of fuel		850 (1)
Bank		25,200 (2)
		717,850
Less Liabilities		
Electricity due	450 (1)	
Bank Loan	•20,000 (3)	
Loan Interest due **W1**	•650 (3)	21,100
Capital at 01/01/2014		••696,750 (2)

• Allow 1m for student's own figure.
•• Accept correct figure only.

General Profit and Loss Account
(of D. and S. Carty) for the year ended 31/12/2014

	€	€
Income		
Gross Profit - Cattle and Milk		•27,082 (1)
- Sheep		•21,688 (1)
Investment Interest **W5**		1,400 (1)
Forestry premium		2,600 (1)
		52,770
Expenditure		
Light, heat and fuel **W6, A4**	3,040 (2)	
Repairs **A5**	5,920 (1)	
Depreciation: Machinery **W7, A6**	7,920 (1)	
Depreciation: Buildings **W8, A7**	5,040 (1)	
Loan Interest **W1, A8**	200 (1)	(22,120)
Net Profit		••30,650 (2)

• Allow marks for student's own figure if consistent with previous work.
•• Accept correct figure only.

Enterprise Analysis Account for 'Cattle and Milk'
for the year ended 31/12/2014

	€	€
Income		
Sales - Milk **W2**	30,700 (2)	
- Cattle and Calves [€14,500 + €6,800]	21,300 (1)	
Single Payment - Cattle	3,600 (1)	
Increase in stock	•5,000 (1)	
Drawings by family	950 (1)	61,550
Expenditure		
Purchases - Cattle	18,000 (1)	
Fertiliser **W3, A1**	2,415 (1)	
General farm expenses **A2**	10,010 (1)	
Dairy wages	3,000 (1)	
Veterinary fees **W4, A3**	1,043 (1)	(34,468)
Gross Profit		27,082

• May be included as: (Allow 1 mark for both)
Closing Stock - Cattle €85,000 (under Income)
Opening Stock - Cattle €80,000 (under Expenditure)

Enterprise Analysis Account for 'Sheep'
for the year ended 31/12/2014

	€	€
Income		
Sales - Sheep and Lambs [€23,000 + €13,400]	36,400 (1)	
Single Payment - Sheep	2,700 (1)	
Wool	1,900 (1)	
Increase in Stock	•8,000 (1)	
Drawings by family	460 (1)	49,460
Expenditure		
Purchases - Sheep	22,000 (1)	
Fertiliser **W3, A1**	1,035 (1)	
General farm expenses **A2**	4,290 (1)	
Veterinary fees **W4, A3**	447 (1)	(27,772)
Gross Profit		21,688

• May be included as: (Allow 1m for both)
Closing Stock - Sheep €33,000 (under Income)
Opening Stock - Sheep €25,000 (under Expenditure)

Workings: €

W1 Loan Interest

18 months interest = 3% × 1·5 years = 4·5%

⇒ 20,900 = 104·5% of loan

⇒ loan = $\frac{20,900}{104 \cdot 5} \times 100$ = €20,000

Interest due = $(20,900 - 20,000) \times \frac{13}{18}$ = €650

W2

Sales - Milk (lodgements)	31,000
– Cheque due 01/01/2014	(1,800)
+ Cheque due 31/12/2014	1,500
	30,700

W3

Fertiliser	2,800
+ Payment due 31/12/2014	650
	3,450

W4

Veterinary fees and medicine	2,740
– Family Health Insurance	(1,250)
	1,490

W5

Investment Interest	700
+ Payment due 31/12/2014	700
	1,400

W6

Light, heat and fuel	4,200
+ Stock of fuel 01/01/2014	850
– Electricity due 01/01/2014	(450)
– Stock of fuel 31/12/2014	(800)
	3,800

W7 Depreciation: Machinery [10% of (€90,000 + €9,000)] 9,900

W8 Depreciation: Buildings [2% of (€425,000 – €110,000)] 6,300

4. Farm Accounts (cont'd.)

Apportionment of Expenses

		€			€
A1	Fertiliser **W3**		**A5**	Repairs	
	Cattle and Milk [70% of €3,450]	2,415 **(1)**		Profit and Loss a/c [80% of €7,400]	5,920 **(1)**
	Sheep [30% of €3,450]	1,035 **(1)**		Drawings [20% of €7,400]	1,480
A2	General farm expenses		**A6**	Depreciation on Machinery **W7**	
	Cattle and Milk [70% of €14,300]	10,010 **(1)**		Profit and Loss a/c [80% of €9,900]	7,920 **(1)**
	Sheep [30% of €14,300]	4,290 **(1)**		Drawings [20% of €9,900]	1,980
A3	Veterinary fees and medicine **W4**		**A7**	Depreciation on Building **W8**	
	Cattle and Milk [70% of €1,490]	1,043 **(1)**		Profit and Loss a/c [80% of €6,300]	5,040 **(1)**
	Sheep [30% of €1,490]	447 **(1)**		Drawings [20% of €6,300]	1,260
A4	Light, heat and fuel **W6**		**A8**	Loan Interest **W1**	
	Profit and Loss a/c [80% of €3,800]	3,040 **(2)**		Profit and Loss a/c [80% of €250]	200 **(1)**
	Drawings [20% of €3,800]	•760		Drawings [20% of €250]	50

• Accept student's own 20% figure.

(d) (i) Which account, other than Drawings, is affected by "farm produce used by family"? Explain your answer. (3)

Named **(1)**
Explained **(2)**

– Sales Account - sales are credited instead of purchases because farm produce is produced rather than purchased

(ii) Prepare the Cartys' Drawings Account. (5)

Drawings Account

	Details	€		Details	€
	Milk	950 **(½)**		Capital a/c	••8,190 **(1)**
	Lamb	460 **(½)**			
	Light, heat and fuel **A4**	•760 **(½)**			
	Family Health Insurance	1,250 **(½)**			
	Repairs **A5**	•1,480 **(½)**			
	Dep. on Machinery **A6**	•1,980 **(½)**			
	Dep. on Buildings **A7**	•1,260 **(½)**			
	Loan Interest **A8**	•50 **(½)**			
		8,190			8,190

• Allow marks for student's own figures if consistent with previous work.
•• Accept student's own figure to balance account but must include the word 'Capital'.

5. Interpretation of Accounts (100)

(a) You are required to calculate the following for 2014: (where appropriate calculations should be made to **two** decimal places.) (50)

(i) Cash Purchases if the period of credit received from trade creditors is 2 months (12)

Average period of credit received from creditors

$$= \frac{\text{Creditors}}{\text{Credit Purchases}} \times \frac{12}{1} = 2$$

$\Rightarrow$ Credit Purchases

$$= \frac{\text{Creditors} \times 12}{2} = \frac{42{,}000\ \mathbf{(1)} \times 12\ \mathbf{(1)}}{2\ \mathbf{(1)}}$$

= ●●€252,000 **(1)**

Total Purchases

= Cost of Sales – Op. Stock + Cl. Stock = 481,000 **(1)** – 32,000 **(1)** + 36,000 **(1)**

= ●●€485,000 **(1)**

$\Rightarrow$ Cash Purchases

= Total Purchases – Credit Purchases = ●485,000 **(1)** – ●252,000 **(1)**

= ●€233,000 **(2)**

(ii) Ordinary Dividend Cover (8)

$$= \frac{\text{Net Profit} - \text{Preference Dividend}}{\text{Ordinary Dividend}} \times \frac{100}{1} = \frac{105{,}000\ \mathbf{(2)} - 12{,}000\ \mathbf{(2)}}{30{,}500\ \mathbf{(2)}}$$

= ●●3·05 times **(2)**

(iii) Interest Cover (8)

$$= \frac{\text{Net Profit before Interest}}{\text{Interest}} = \frac{105{,}000\ \mathbf{(2)} + 20{,}000\ \mathbf{(2)}}{20{,}000\ \mathbf{(2)}}$$

= ●●6·25 times **(2)**

** Must use figure for 'Interest Paid' (€16,000) and not calculate interest (8% of €200,000).

(iv) Dividend Yield (12)

Dividend per Share

$$= \frac{\text{Total Ordinary Dividends}}{\text{Number of Ordinary Shares Issued}} = \frac{30{,}500\ \mathbf{(3)}}{400{,}000\ \mathbf{(2)}}$$

= ●●7·63 cent **(1)**

$\Rightarrow$ Dividend Yield

$$= \frac{\text{Dividend per Share}}{\text{Market Price per Share}} \times \frac{100}{1} = \frac{●7{\cdot}63\ \mathbf{(1)}}{195\ \mathbf{(2)}} \times \frac{100}{1}\ \mathbf{(1)}$$

= ●3·91% **(2)**

(v) How long it would take one ordinary share to recover its value at present pay-out rate. (10)

$$= \frac{\text{Market Price}}{\text{Dividend per Share}} = \frac{195\ \mathbf{(4)}}{●7{\cdot}63\ \mathbf{(4)}}$$

= ●25·56 years **(2)**

● Allow full marks for student's own figure if consistent with previous work.
●● Full marks awarded for correct answer even if no workings are shown.

** Penalise 1m if ratios not given to 2 decimal places where appropriate.
** Penalise 1m if appropriate units (times, %, years) omitted from final answers.
** Allow 3m for correct formula if no other work shown.

(b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)

– ordinary shareholders would be satisfied with the following:

❶ Performance

(i) Profitability **(7)**

- in 2013, Return on Capital Employed / ROCE was 11·7% (1)
- in 2014, it is •14·04% $\left[\dfrac{105{,}000 + 20{,}000}{890{,}000} \times \dfrac{100}{1}\right]$ (1), which is better (1)
- the company is profitable (1)
- •14·04% is well above risk-free rates of 3-4% (1)
- •14·04% is also well above the cost of borrowing at 8% (1)
- represents an efficient use of resources in 2014 (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Dividend Policy **(7)**

- in 2013, the dividend per share was 6·7c (1)
- in 2014, it is •7·63c, which is better (1)
- in 2013, the dividend cover was 2·6 times (1)
- in 2014, it is •3·05 times, which means more earnings were retained in the company (1)
- in 2013, the dividend yield was 3·72% (1)
- in 2014, it is •3·91%, which is better (1)
- insufficient return for taking a risk - only approximately the same as risk-free investments of 3-4% (1)

• Allow full marks for student's own figure if consistent with previous work.
** Figures in brackets show breakdown of marks if answer incomplete.

❷ State of Affairs

(iii) Liquidity **(7)**

- in 2013, the quick ratio / acid test ratio was 0·95:1 (1)
- in 2014, the ratio is •0·75:1 $\left[\dfrac{85{,}000 - 36{,}000}{65{,}000}\right]$ (1), which is worse (1)
- the company has a liquidity problem (1)
- the company now has only •75c available to pay every €1 owed in the short term (1)
- the worsening of the ratio indicates a difficulty in paying debts as they fall due (1)
- the company will have difficulty in paying dividends (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
** Figures in brackets show breakdown of marks if answer incomplete.

(iv) Gearing **(7)**

- in 2013, the gearing ratio was 48% (1)
- in 2014, it is 44·94% $\left[\dfrac{200{,}000 + 200{,}000}{890{,}000}\right]$ (1), which is better (1)
- the company is low geared (1) and is now less dependent on debt capital (1)
- interest cover has improved from 5·6 times in 2013 to •6·25 times in 2014 (1)
- (improving trend) should make both interest and dividend payments easier (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
** Figures in brackets show breakdown of marks if answer incomplete.

(b) (cont'd.)

(v) Investment Policy **(4)**
- investments made by the company cost €120,000 (1)
- these investment now have a market value of €140,000, which represents a rise of €20,000 (1)
- this indicates good management of resources (1)
- these investments can be used to repay debentures in 2018 (1)

** Figures in brackets show breakdown of marks if answer incomplete.

❸ Prospects

(vi) Value of Shares **(4)**
- at the end of 2013, the market value of one share was €1·80 (1)
- at the end of 2014, it was €1·95, which represents an increase of 15c (1)
- this would please the shareholders and indicates market confidence in the company (1)
- (based on the current dividend pay-out rate,) the price recoup period is •25·56 years, which is not short (1)

• Allow full marks for student's own figure if consistent with previous work.
** Figures in brackets show breakdown of marks if answer incomplete.

(vii) Sector **(4)**
- the company operates in the pharmaceutical sector (1)
- with an aging and increasingly health conscious population, prospects are good in the short and medium terms (1)
- however, the prospects are not as certain in the long term as:
  Any 2: (2 × 1)
  - the cost of developing new drugs can be prohibitive expensive //
  - existing patented drugs will come out of patent and will be open to increased competition from generic versions of these drugs and drive prices down //
  - the government / HSE seek lower prices for medicines prescribed for people with medical cards / over 70 years of age / children under 5 years of age // *etc*.

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

(c) A rising Quick Ratio is a sign of prudent management. Briefly discuss. (10)

❶ Overall / Conclusion **(2)**
- a rising quick ratio is not always a sign of prudent management

** Accept other appropriate material.

❷ Explanation **(8)**
- it can be a sign of prudent management because it indicates that it is easier for the firm to pay its short-term debts on time (2) and thus avoid interest / avail of cash discounts (1)
- however, if the ratio rises significantly above 1:1 (2), too much of the firm's resources may be tied up in liquid assets (2) when they could be used to earn more profits (1)

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

NOTES:

6. Tabular Statement (100)

Record on a tabular statement the effect each of the above transactions had on the relevant asset, liability and capital accounts and ascertain the total assets and liabilities on 31/12/2014. (100)

Tabular Statement to show the effect on relevant Asset, Liability and Capital Accounts

Assets	**1/1/2014**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Dec.**	**31/12/2014**
	€	€	€	€	€	€	€	€	€	€	€	€	€	€
Land & Buildings	580,000	110,000 (2)	240,000 (2)											930,000 (1)
Depreciation	(38,000)	38,000 (2)			W2↓							(16,800)(2)		(16,800)
Delivery Vans	70,000		25,000 (2)		18,000 (2)				(12,000)(2)			W11↑		101,000
Depreciation	(26,000)				9,500 (2)		W5↓	W6↓	4,500 (2)			(16,000)(2)		(28,000)
Stock	57,300						(480)(2)	640 (2)						57,460
Debtors	66,000		7,000 (2)				280 (2)							
							600 (2)	(720)(2)						73,160 (1)
Prov. for Bad Debts	(3,300)			380 (3)			W4↑	W7↑						(2,920)(1)
Goodwill			29,000 (2)	W1↑										29,000
Total	706,000	148,000	301,000	380	27,500	–	400	(80)	(7,500)	–	–	(32,800)	–	1,142,900

Liabilities	**1/1/2014**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Dec.**	**31/12/2014**
	€	€	€	€	€	€	€	€	€	€	€	€	€	€
Creditors	58,000		26,000 (2)						(7,000)(2)					77,0000
Bank	20,000				26,000 (2)	(5,500)(2)								
						1,800 (2)	(840)(2)			34,500 (2)	(84,000)(2)			(8,040)(2)
Expenses due	3,000					(1,800)(2)				W9↑			600 (2)	1,800
Ordinary Shares	470,000		220,000 (2)								60,000 (2)			750,000
Share Premium	24,000		55,000 (2)								24,000 (2)			103,000 (1)
Profit & Loss balance	131,000			380 (2)	1,500 (2)		1,240 (2)	(80)(2)	(500)(2)	(34,500)(2)	W10↑	(16,800)(2)	4,950 (2)	
					W3↑				W8↑			(16,000)(2)	(600)(2)	70,590 (2)
Revaluation Reserve		148,000 (2)												148,000
Rent Rec. prepaid						5,500 (2)							(4,950)(2)	550 (1)
Total	706,000	148,000	301,000	380	27,500	–	400	(80)	(7,500)	–	–	(32,800)	–	1,142,900

6. Tabular Statement (cont'd.)

Workings:

W1 Debtors

	€
Debtors 01/01/2014 [€62,700 ÷ 95 × 100]	66,000
+ Debtors from new business (Feb.)	7,000
	73,000
Provision for Bad Debts	
Old Provision	3,300
– New Provision [4% of €73,000]	(2,920)
Reduction in Prov. for Bad Debts (Mar.)	•380 **(3)**

• Accept correct figure only.

W2 Delivery Vans

	€
Cost of new Delivery Van	40,000 **(1)**
– Cost of old Delivery Van	(22,000) **(1)**
Net increase in Delivery Vans (Apr.)	18,000

W3 Sale of Delivery Van

		€
Allowance for new Delivery Van		14,000
Cost of old Delivery Van	22,000	
– Depreciation to date	(9,500)	
Book value on date of sale		(12,500)
Profit on Sale of Delivery Van (Apr.)		•1,500 **(2)**

• Accept correct figure only.

W4 Debtors

	€
Bad Debt w/o [€840 ÷ 75 × 100]	1,120
– Payment received	(840)
	•280 **(2)**
+ Credit Sale	600 **(2)**
Net increase in Debtors (June)	880

• Accept correct figure only.

W5 Stock

	€
Credit Sale	600
– Mark-up [€600 ÷ 125 × 25]	(120)
Net decrease in Stock (June)	•480 **(2)**

• Accept correct figure only.

W6 Stock

	€
Credit Sale	800
– Mark-up [€800 ÷ 125 × 25]	(160)
Net increase in Stock (Aug.)	•640 **(2)**

• Accept correct figure only.

W7 Debtors

	€
Credit Sale	800
– Restocking charge [10% of €800]	(80)
Net decrease in Debtors (Aug.)	•720 **(2)**

• Accept correct figure only.

W8 Sale of Delivery Van

	€
Concession for Delivery Van	7,000
– Book value on date of sale	(7,500)
Loss on Sale of Delivery Van (Sept.)	•(500) **(2)**

• Accept correct figure only.

W9 Dividends paid

	€
5% of [€470,000 + €220,000]	34,500
Net decrease in Bank (Oct.)	•34,500 **(2)**

• Accept correct figure only.

W10 Share Capital

	€
Authorised Share Capital 01/01/2014	750,000
– Issued Share Capital 01/01/2014	(470,000)
– Share Capital issued (Feb.)	(220,000)
Share Capital issued (Nov.)	•60,000 **(2)**
Bank	84,000
– Share Capital issued (Nov.)	(60,000)
Net increase in Share Premium (Nov.)	•24,000 **(2)**

• Accept correct figure only.

W11 Depreciation: Buildings

	€
Depreciation charge for year	
[2% of (€580,000 + €110,000 – €70,000)]	12,400
[2% of €240,000 × 11/12]	4,400
Net decrease in Depreciation (Dec.)	•16,800 **(2)**

• Accept correct figure only.

7. Incomplete Records (100)

(a) Prepare, with workings, a Statement/Balance Sheet showing Clay's profit or loss for the year ended 31/12/2014. (50)

(b) Prepare, with workings, a Trading, Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2014. (40)

Balance Sheet (of C. Clay)
as at 31/12/2014

	€ Cost	€ Dep.	€ NBV
Intangible Fixed Assets			
Goodwill **W1**			26,700 (3)
Tangible Fixed Assets			
Premises **W2**	570,000		570,000 (2)
Equipment **W3, 4**	43,000 (2)	••5,775 (2)	37,225
Delivery Vans **W5**	24,000 (1)	••2,000 (1)	22,000
	637,000	7,775	629,225
Financial Fixed Assets			
4% Investments			60,000 (2)
			715,925
Current Assets			
Stock 31/12/2014 **W6**		33,000 (2)	
Stock of Heating Oil		400 (2)	
Debtors **W7**	29,500 (2)		
Less Prov. Bad Debts	(885)(1)	28,615	
Rates prepaid **W8**		8,700 (2)	
Investment Interest due **W11**		400 (2)	
		71,115	
Less Creditors: amounts falling due within 1 year			
Creditors		17,200 (2)	
Bank Overdraft		8,700 (2)	
Loan Instalments due **W12**		15,000 (2)	
Loan Interest due **W14**		500 (2)	
Electricity due		550 (2)	
		(41,950)	
Net Current Assets			29,165
Total Assets *less* Current Liabilities			745,090
Financed by:			
Creditors: amounts falling due after 1 year			
Loan **W12**			165,000 (2)
Capital and Reserves			
Capital 01/01/2014		510,000 (2)	
Capital Introduced **W15**		50,000 (2)	
Net Profit		••46,900 (4)	
		606,900	
Less Drawings **W16**		(26,810)(6)	580,090
Capital Employed			745,090

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.

Trading, Profit and Loss Account (of C. Clay)
for the year ended 31/12/2014

		€	€
Sales **W19**			•534,000 (2)
Less Cost of Sales			
Stock 01/01/2014		39,000 (2)	
Purchases	•374,040 (2)		
Less Drawings **W16**	(6,240)(2)	367,800	
		406,800	
Less Stock 31/12/2014 **W6**		(33,000)(2)	
Cost of Goods Sold			373,800
Gross Profit			160,200
Add Investment Interest **W10**			2,400 (2)
			162,600
Less Expenses			
Light and Heat **W18**		6,680 (6)	
Loan Interest **W13**		2,400 (4)	
Wages and Gen. Expenses **W17**		89,400 (5)	
Rates **W9**		8,560 (6)	
Provision for Bad Debts **W7**		•885 (2)	
Deprec: Delivery Vans **W4**		•2,000 (2)	
Equipment **W3**		•5,775 (2)	(115,700)
Net Profit			•46,900 (1)

Workings:

W1 Goodwill

	€	€
Purchase Price 01/01/2014		510,000
Assets		
Premises	350,000	
Stock 01/01/2014	39,000	
Debtors	38,500	
Rates prepaid	7,800	
Equipment	25,000	
4% investments	60,000	
	520,300 (1)	
Less Liabilities		
Trade Creditors	35,600	
Wages due	1,400	
	(37,000)(1)	(483,300)
Figure transferred to Balance Sheet		26,700 (1)

W2 Premises

Cost of Premises 01/01/2014	350,000 (1)
+ Purchases (cost) 01/09/2014	220,000 (1)
Figure transferred to Balance Sheet	570,000

Workings (cont'd.):

		€	€
W3	Equipment		
	Cost of Equipment 01/01/2014		25,000 (1)
	+ Purchases (cost) 01/04/2014		18,000 (1)
	Figure transferred to Balance Sheet		43,000
W4	Depreciation: Equipment		
	Depreciation charge for year		
	[15% of €25,000]		3,750 (1)
	[15% of €18,000 × 9/12]		2,025 (1)
	Figure transferred to Balance Sheet		5,775
W5	Depreciation: Delivery Vans		
	Depreciation charge for year		
	[20% of €24,000 × 5/12]		2,000
	Figure transferred to Balance Sheet		2,000 (1)
W6	Stock 31/12/2014		33,400 (1)
	– Stock of Heating Oil 31/12/2014		(400)(1)
	Figure transferred to Balance Sheet		33,000
W7	Provision for Bad Debts		
	3% of Debtors [3% of €29,500]		885
	Figure transferred to Balance Sheet		885 (1)
W8	Rates prepaid		
	Prepaid for 9 months [€11,600 × 9/12]		8,700
	Figure transferred to Balance Sheet		8,700 (2)
W9	Rates		
	Rates paid		11,600 (1)
	+ Rates prepaid 01/01/2014		7,800 (2)
	– Rates prepaid 31/12/2014		(8,700)(2)
			10,700
	– Drawings [20% of €10,700]		•(2,140)(1)
	Figure transferred to Profit & Loss a/c		8,560
	• Allow student's own 20% figure.		
W10	Investment Interest		
	Investment Interest payable		
	[4% of €60,000]		2,400
	Figure transferred to Profit & Loss a/c		•2,400 (2)
	• Accept correct figure only.		
W11	Investment Interest due		
	Investment Interest payable		•2,400 (1)
	– Investment Interest paid		(2,000)(1)
	Figure transferred to Balance Sheet		400
	• Allow student's own previous figure.		

		€
W12	Loan 31/12/2014	
	Loan received 01/09/2014	180,000
	– Loan instalments due	
	[€180,000 ÷ 24 × 2]	15,000 (1)
	Figure transferred to Balance Sheet	165,000 (1)
W13	Loan Interest	
	Loan Interest payable	
	[5% of €180,000 × 4/12]	3,000 (2)
	– Drawings [20% of €3,000]	(600)(2)
	Figure transferred to Profit & Loss a/c	2,400
	• Allow student's own 20% figure.	
W14	Loan Interest due	
	Loan Interest payable	3,000
	– Loan Interest paid	(2,500)
	Figure transferred to Balance Sheet	•500 (2)
	• Accept correct figure only.	
W15	Capital introduced	
	Personal Funds 01/09/2014	40,000 (1)
	EU Grant	10,000 (1)
	Figure transferred to Balance Sheet	50,000
W16	Drawings	
	Stock [€120 × 52 weeks]	6,240 (1)
	Cash [€230 × 52 weeks]	11,960 (1)
	Petrol	4,200 (1)
	Rates [20% of €10,700]	2,140 (1)
	Light and Heat [20% of €8,350]	1,670 (1)
	Loan Interest [20% of €3,000]	600 (1)
	Figure transferred to Balance Sheet	26,810
W17	Wages and General Expenses	
	Wages and General Expenses paid	95,000 (1)
	– Wages due 01/01/2014	(1,400)(2)
	– Drawings (Petrol bill)	(4,200)(2)
	Figure transferred to Profit & Loss a/c	89,400
W18	Light and Heat	
	Light and Heat paid	8,200 (1)
	+ Electricity due 31/12/2014	550 (2)
	– Stock of Heating Oil 31/12/2014	(400)(2)
		8,350
	– Drawings [20% of €8,350]	•(1,670)(1)
	Figure transferred to Profit & Loss a/c	6,680
	• Allow student's own 20% figure.	
W19	Sales	
	Gross Profit (30% of Sales)	
	⇒ Sales [€160,200 × 100/30]	•534,000
	Figure transferred to Profit & Loss a/c	534,000 (2)
	• Allow student's own figure if multiplied by '100/30'.	

7. Incomplete Records (cont'd.)

(c) (i) Explain what is meant by an Accounting Concept. **(4)** (10)

– an accounting practice or rule (2) that is applied in the preparation of financial statements / final accounts / accounts (2)

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Illustrate how the 'Accruals Concept' applies to the accounts of C. Clay.

Explanation **(2)**

– all expenses/income relating to a particular period must be included in the accounts of that period (1) whether paid / received or not (1)

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

Examples

Any 2: **(2 × 1)**

– rates prepaid //
– wages due //
– electricity due //
– loan interest due //
– investment interest due // *etc.*

(iii) Name **two** other fundamental accounting concepts.

Any 2: **(2 × 1)**

– going concern concept //
– consistency concept //
– prudence concept

** Only accept above concepts as answers. Other concepts such as 'entity', 'money measurement', 'materiality', 'realisation', 'double-entry', 'period of account convention' and 'objectivity' are minor concepts and should not be accepted.

NOTES:

8. Job Costing (80)

(a) Calculate the overhead to be absorbed by each department stating clearly the basis of apportionment used. (29)

Overhead	Basis		Total €	Manufacturing €	Assembly €	Packaging €
Indirect Materials	Actual		350,000	230,000 (1)	70,000 (1)	50,000 (1)
Indirect Labour	Actual		220,000	100,000 (1)	80,000 (1)	40,000 (1)
Machine Maintenance	Machine hours	(1)	30,000	18,000 (1)	9,000 (1)	3,000 (1)
Plant Depreciation	Plant valuation	(1)	130,000	100,000 (1)	24,000 (1)	6,000 (1)
Light and Heat	Volume	(1)	135,000	75,000 (1)	45,000 (1)	15,000 (1)
Rent and Rates	Floor Space	(1)	90,000	60,000 (1)	20,000 (1)	10,000 (1)
Factory Canteen	Employees	(1)	54,000	30,000 (1)	15,000 (1)	9,000 (1)
			1,009,000	•613,000 (1)	•263,000 (1)	•133,000 (1)

- • Accept correct figure only.

(b) Calculate a suitable overhead absorption rate for each department. (18)

		Machine Hours	Direct Labour Hours	
		Manufacturing €	Assembly €	Packaging €
Budgeted overheads / Budgeted hours	=	•613,000 (2) / 36,000 (3)	•263,000 (2) / 35,000 (3)	•133,000 (2) / 25,000 (3)
Overhead absorption rate per machine hour	=	•€17·03 (1)		
Overhead absorption rate per direct labour hour	=		•€7·51 (1)	•€5·32 (1)

- • Allow full marks for student's own figure if consistent with previous work.
- •• Full marks awarded for correct answer even if no workings are shown.
- •• Figures in brackets show breakdown of marks if answer incorrect or incomplete.

(c) Compute the selling price of Job No. 803. (21)

Selling price of Job No. 803

		€
Direct Materials	[€15,000 + €4,500]	•19,500·00 (2)
Direct Labour	[€3,700 + €5,100 + €800]	•9,600·00 (3)
Overheads		
Manufacturing	[70 hrs. (2) × ••€17·03 (2)]	••1,192·10 (4)
Assembly	[80 hrs. (2) × ••€7·51 (2)]	••600·80 (4)
Packaging	[14 hrs. (2) × ••€5·32 (2))	••74·48 (4)
Production Cost	[80% of selling price]	30,967·38
Profit	[20% of selling price]	7,741·85
Selling Price	[100%]	•38,709·23 (4)

- • Accept correct figures only.
- •• Allow full marks for student's own figure if consistent with previous work.

(d) (i) State and explain **two** reasons for product costing. (6)

Any 2: **(2 × 3)**

- establishes the selling price (2) for tendering purposes (1) //
- controls costs (2) by comparing budgeted costs with actual costs (1) //
- helps with planning (2) and decision-making (1) //
- finds the value of closing stock (2) in order to prepare final accounts (1) // *etc*.

** Accept other appropriate answers.
** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Explain, with examples, 'under-absorption' of overheads. (6)

Explanation **(2)**

- under-absorption is when costs are under-recovered (1), *i.e.* budgeted costs are less than actual costs (1)

** Accept other appropriate material.
** Figures in brackets show breakdown of marks if answer incomplete.

Examples

Any 2: **(2 × 2)**

- error in estimating overhead expenses, *e.g.* cost of insurance / rent / rates / maintenance / staff canteen / *etc*. may be higher than expected //
- unexpected changes in the methods production affecting levels of overheads, *e.g.* more fuel / power / depreciation / *etc*. required //
- actual working hours may be more than hours budgeted for, *e.g.* supervisory / management oversight may be higher as task takes longer to complete than expected //
- price fluctuations in raw materials // *etc*.

** Accept other appropriate answers.

9. Production Budgeting (80)

(a) Prepare a Cash Budget for the six months July to December 2015. (61)

for Dale Ltd for July to December 2015

	July	Aug.	Sept.	Oct.	Nov.	Dec.
Receipts	€	€	€	€	€	€
Cash Sales receipts	151,050 (1)	156,750 (1)	168,150 (1)	176,700 (1)	185,250 (1)	193,800 (1)
Credit Sales receipts (1 month)	–	222,600 (1)	231,000 (1)	247,800 (1)	260,400 (1)	273,000 (1)
Credit Sales receipts (2 months)	–	–	148,400 (1)	154,000 (1)	165,200 (1)	173,600 (1)
Total	151,050	379,350	547,550	578,500	610,850	640,400
Payments						
Purchases (1 month)	–	116,400 (1)	121,250 (1)	135,800 (1)	150,350 (1)	169,750 (1)
Purchases (2 months)	–	–	120,000 (1)	125,000 (1)	140,000 (1)	155,000 (1)
Wages	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)
Variable Overheads	159,000 (1)	165,000 (1)	177,000 (1)	186,000 (1)	195,000 (1)	204,000 (1)
Fixed Overheads **W1**	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)
Equipment	–	60,000 (1)	–	–	–	–
Loan Instalments	–	–	1,500 (1)	1,500 (1)	1,500 (1)	1,500 (1)
Interest **W3**	–	360 (1)	350 (1)	340 (1)	330 (1)	320 (1)
Total	252,750	435,510	513,850	542,390	580,930	624,320
Net Cash	•(101,700)(1)	•(56,160)(1)	•33,700 (1)	•36,110 (1)	•29,920 (1)	•16,080 (1)
Bank Loan		54,000 (1)				
Opening Balance		(101,700)	(103,860)	(70,160)	(34,050)	(4,130)
Closing Balance	(101,700)	(103,860)	(70,160)	(34,050)	(4,130)	••11,950 (2)

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.

(b) Prepare a Budgeted Profit and Loss Account for the six months ended 31/12/2015. (13)

Budgeted Profit and Loss Account for Dale Ltd
for the six months ended 31/12/2015

	€	€
Sales		3,620,000 (1)
Less Cost of Sales		
Purchases	1,820,000 (1)	
Labour	270,000 (1)	
Variable Overheads	•1,086,000 (1)	
Fixed Overheads	•292,500 (1)	(3,468,500)
Gross Profit		151,500
Less Depreciation: Equipment **W2**	•6,250 (1)	
Discount Allowed■ **W4**	54,300 (2)	(60,550)
		90,950
Add Discount Received■ **W5**		21,450 (2)
		112,400
Less Interest		(1,700)(1)
Profit		••110,700 (2)

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.
■ Allow 1m for correct words if figure incorrect or omitted.

9. Production Budgeting (cont'd.)

Workings:

W1

	€
Fixed Overheads	50,000
− Depreciation of equip. per month Value w/o [¼ of €60,000 × 1/12]	1,250
Net Figure	48,750

W2

	€
Depreciation of Equipment Value w/o [¼ of €60,000 × 5/12]	6,250 **(1)**
Figure transferred to Profit & Loss a/c	6,250

W3

Loan Interest payable	€
Aug. [8% of €54,000 × 1/12]	360 **(1)**
Sept. [8% of €52,500 × 1/12]	350 **(1)**
Oct. [8% of €51,000 × 1/12]	340 **(1)**
Nov. [8% of €49,500 × 1/12]	330 **(1)**
Dec. [8% of €48,000 × 1/12]	320 **(1)**

W4

Discount Allowed	€
July [5% × (30% × €530,000)]	7,950
Aug. [5% × (30% × €550,000)]	8,250
Sept. [5% × (30% × €590,000)]	8,850
Oct. [5% × (30% × €620,000)]	9,300
Nov. [5% × (30% × €650,000)]	9,750
Dec. [5% × (30% × €680,000)]	10,200
	54,300 **(2)**
or	
July-Dec. [5% × (30% × €3,620,000)]	54,300 **(2)**

W5

Discount Received	€
Aug. [3% × (50% × €240,000)]	3,600
Sept. [3% × (50% × €250,000)]	3,750
Oct. [3% × (50% × €280,000)]	4,200
Nov. [3% × (50% × €310,000)]	4,650
Dec. [3% × (50% × €350,000)]	5,250
	21,450 **(2)**
or	
July-Nov. [3% × (50% × (€1,820,000 – 390,000)]	21,450 **(2)**

(c) Explain **three** reasons for preparing a flexible budget. (6)

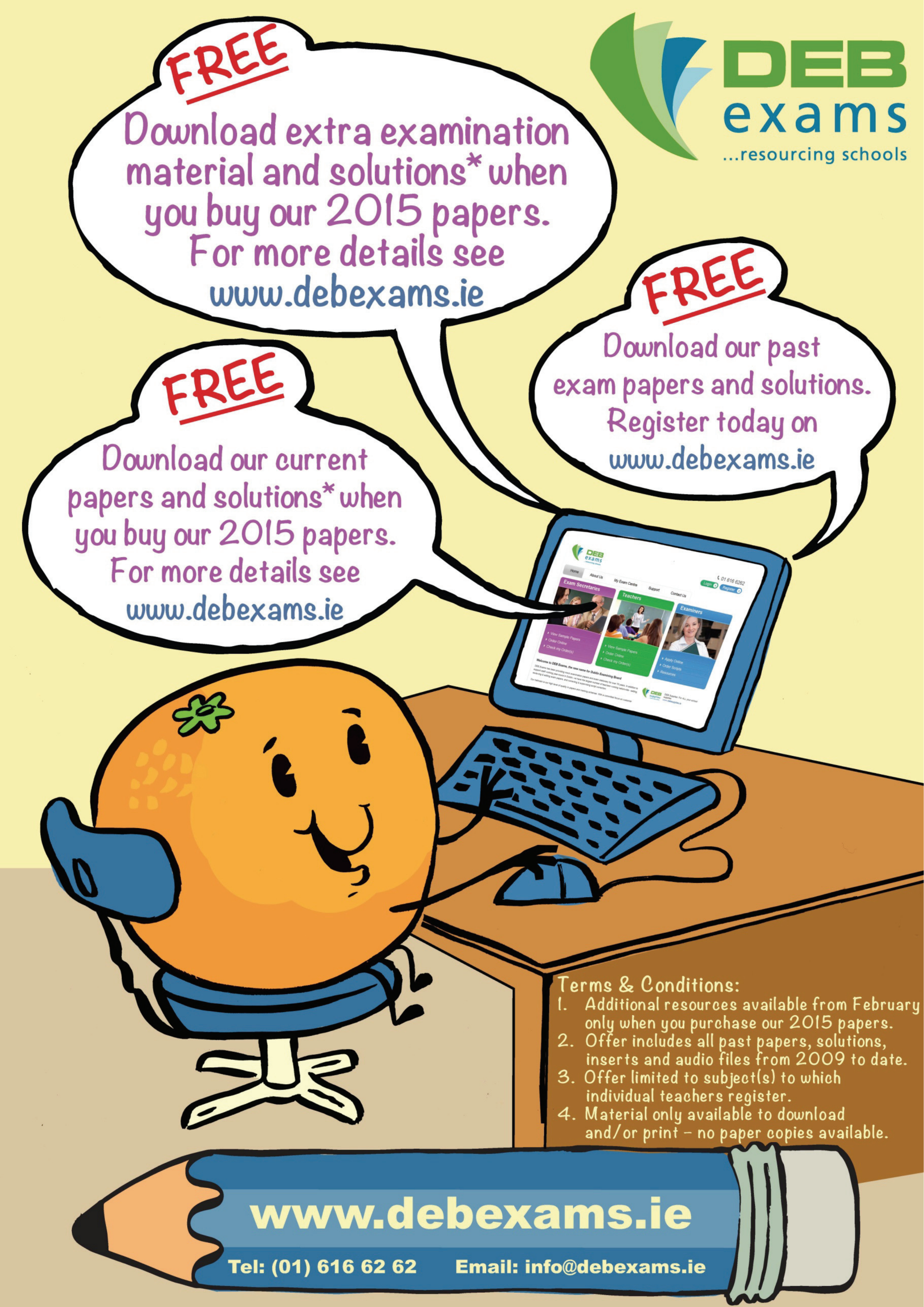
Any 3: **(3 × 2)**

- to compare budgeted costs and actual costs at the same activity level / to show whether actual costs were exceeded or were less than budgeted costs (variances) //
- to compare like with like / to use as a bench-mark against which to measure actual costs //
- to adjust budgeted costs to the actual activity level //
- to help in controlling costs or to plan product levels // *etc*.

** Accept other appropriate answers.

NOTES:

NOTES: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