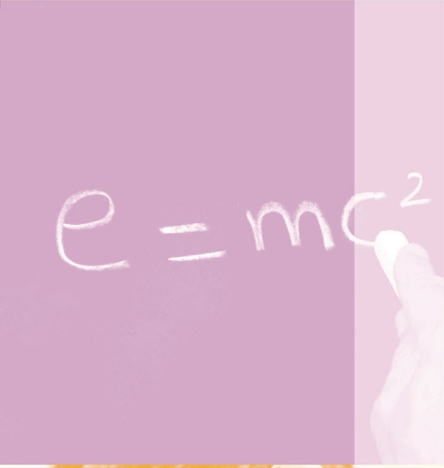

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Pre-Leaving Certificate Examination, 2019

Accounting

Marking Scheme

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Higher	Pg. 31

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DEB exams

Pre-Leaving Certificate Examination, 2019

Accounting

Ordinary & Higher Level

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Ordinary Level

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Pre-Leaving Certificate Examination, 2019

Accounting

Ordinary Level
Marking Scheme (400 marks)

Explanation

Conventions 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 with 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.

1. Departmental Final Accounts of a Limited Company (120)

The firm Herriot Ltd is divided into two departments - Grocery and Fashion. The following balances were extracted from its books on 31/12/2018:

	€	€
Share Capital		
Authorised - 800,000 Ordinary Shares at €1 each		
Issued - 600,000 Ordinary Shares at €1 each		600,000
Buildings (cost €920,000)	850,000	
Delivery Vans (cost €190,000)	150,000	
10% Debentures (issued 01/07/2018)		140,000
Debtors	65,000	
Creditors		53,000
Grocery Department		
Stocks 01/01/2018	61,000	
Purchases	366,000	
Sales		750,000
Carriage Inwards	3,500	
Fashion Department		
Stocks 01/01/2018	82,000	
Purchases	620,000	
Sales		1,125,000
Returns Inwards (Sales Returns)	5,000	
Salaries and General Expenses	225,000	
Advertising	46,000	
Insurance	58,000	
Light and Heat	80,000	
Cleaning	15,000	
Directors' Fees	40,000	
Bank		19,000
PAYE and PRSI		12,000
Profit and Loss balance 01/01/2018	32,500	
	2,669,000	2,699,000

(i) Stocks at 31/12/2018: Grocery €50,000
Fashion €75,000

(ii) Insurance is for the year ended 31/03/2019.

(iii) Depreciation is to be provided as follows:
Buildings 4% of cost
Delivery Vans 10% of book value

(iv) Provision should be made for Debenture Interest due.

(v) Provide for Corporation Tax €17,000.

(vi) The floor space of the firm is divided as follows:
Grocery 25%
Fashion 75%

(vii) Expenses applicable to both departments should be divided on the basis of Sales or Floor Space where appropriate.

1. Departmental Final Accounts of a Limited Company (cont'd.)

(a) Prepare a **Departmental Trading, Profit and Loss Account** for the year ended 31/12/2018. (80)

Departmental Trading, Profit and Loss Account (of Herriot Ltd)
for the year ended 31/12/2018 (1)

	€ Total	€ Grocery	€ Fashion	€ Total	€ Grocery	€ Fashion
Sales				1,875,000 (2)	750,000 (2)	1,125,000 (2)
Returns Inwards				(5,000)(2)		(5,000)(1)
				1,870,000	750,000	1,120,000
Less Cost of Sales						
Stocks 01/01/2018	143,000 (2)	61,000 (2)	82,000 (2)			
Purchases	986,000 (2)	366,000 (2)	620,000 (2)			
Add Carriage Inwards	3,500 (2)	3,500 (1)	—			
	1,132,500	430,500	702,000			
Stocks 31/12/2018	(125,000)(2)	(50,000)(2)	(75,000)(2)	(1,007,500)	(380,500)	(627,000)
Gross Profit				862,500	369,500	493,000
Less Expenses						
Administration (1)						
Insurance W1, A1	•43,500 (3)	••10,875 (1)	••32,625 (1)			
Salaries and General Expenses A2	225,000 (2)	••90,000 (1)	••135,000 (1)			
Light and Heat A3	80,000 (2)	••20,000 (1)	••60,000 (1)			
Cleaning A4	15,000 (2)	••3,750 (1)	••11,250 (1)			
Directors' Fees A5	40,000 (2)	••16,000 (1)	••24,000 (1)			
Depreciation:						
Buildings W2, A6	•36,800 (3)	••9,200 (1)	••27,600 (1)			
	440,300	149,825	290,475			
Selling & Distribution (1)						
Advertising A7	46,000 (2)	••18,400 (1)	••27,600 (1)			
Depreciation:						
Delivery Vans W3, A8	•15,000 (3)	••6,000 (1)	••9,000 (1)			
	61,000	24,400	36,600	(501,300)	(174,225)	(327,075)
Operating Profit				361,200	195,275	165,925
Less Debenture Interest W4, A9				•(7,000)(3)	••(1,750)(1)	••(5,250)(1)
Net Profit before tax for year				354,200	193,525	160,675
Less Corporation Tax				(17,000)(3)		
				337,200		
Profit & Loss balance 01/01/2018				(32,500)(3)		
Profit & Loss balance 31/12/2018				•••304,700 (3)		

Workings:

W1 Insurance

	€
Payment(s) during the year	58,000 (1)
– Insurance prepaid 31/12/18 [€58,000 × 3/12]	•(14,500)(2)
Figure transferred to Profit & Loss a/c	43,500
Insurance prepaid 31/12/2018	••14,500 (2)
Figure transferred to Balance Sheet	14,500

W2 Buildings

	€
Depreciation [4% of €920,000]	•36,800 (3)
Figure transferred to Profit & Loss a/c	36,800
Accumulated Depreciation	
Accumulated Dep. to 01/01/2018 [€920,000 – €850,000]	70,000 (2)
Depreciation charge for the year	••36,800 (1)
Figure transferred to Balance Sheet	106,800

W3 Delivery Vans

	€
Depreciation [10% of €150,000]	•15,000 (3)
Figure transferred to Profit & Loss a/c	15,000
Accumulated Depreciation	
Accumulated Dep. to 01/01/2018 [€190,000 – €150,000]	40,000 (2)
Depreciation charge for the year	••15,000 (1)
Figure transferred to Balance Sheet	55,000

W4 Debenture Interest

	€
Payable [10% of €140,000 × 6/12]	•7,000 (3)
Figure transferred to Profit & Loss a/c	7,000
Debenture Interest due 31/12/2018	
Payable [10% of €140,000 × 6/12]	••7,000 (2)
Figure transferred to Balance Sheet	7,000

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

1. Departmental Final Accounts of a Limited Company (cont'd.)

(a) (cont'd.)

Workings: €

W5 Division of expenses:

❶ On basis of Sales *S

① Grocery = $\frac{750,000}{1,875,000} \times \frac{100}{1}$ = 40%

② Fashion = $\frac{1,125,000}{1,875,000} \times \frac{100}{1}$ = 60%

❷ On basis of Floor Space *FS

① Grocery = 25%

② Fashion = 75%

Apportionment of Expenses €

		€
A1	Insurance W1, *FS	
	Grocery [25% of €43,500]	••10,875 (1)
	Fashion [75% of €43,500]	••32,625 (1)
A2	Salaries & General Expenses *S	
	Grocery [40% of €225,000]	••90,000 (1)
	Fashion [60% of €225,000]	••135,000 (1)
A3	Light and Heat *FS	
	Grocery [25% of €80,000]	••20,000 (1)
	Fashion [75% of €80,000]	••60,000 (1)
A4	Cleaning *FS	
	Grocery [25% of €15,000]	••3,750 (1)
	Fashion [75% of €15,000]	••11,250 (1)
A5	Directors' Fees *S	
	Grocery [40% of €40,000]	••16,000 (1)
	Fashion [60% of €40,000]	••24,000 (1)
A6	Depreciation: Buildings W2, *FS	
	Grocery [25% of €36,800]	••9,200 (1)
	Fashion [75% of €36,800]	••27,600 (1)
A7	Advertising *S	
	Grocery [40% of €46,000]	••18,400 (1)
	Fashion [60% of €46,000]	••27,600 (1)
A8	Depreciation: Delivery Vans W3, *S	
	Grocery [40% of €15,000]	••6,000 (1)
	Fashion [60% of €15,000]	••9,000 (1)
A9	Debenture Interest W4, *FS	
	Grocery [25% of €7,000]	••1,750 (1)
	Fashion [75% of €7,000]	••5,250 (1)

(b) Prepare a **Balance Sheet** as at 31/12/2018. (40)

Balance Sheet (of Herriot Ltd) as at 31/12/2018 (1)

	€ Cost	€ Dep.	€ NBV
Tangible Fixed Assets			
Buildings W2	920,000 (2)	••106,800 (3)	813,200
Delivery Vans W3	190,000 (2)	••55,000 (3)	135,000
	1,110,000	161,800	948,200
Current Assets			
Debtors		65,000 (2)	
Insurance prepaid W1		••14,500 (2)	
Stocks 31/12/2018: Grocery	50,000 (2)		
Fashion	75,000 (2)	125,000	
		204,500	
Creditors: Amounts falling due within 1 year			
Creditors	53,000 (3)		
Bank	19,000 (3)		
PAYE and PRSI	12,000 (3)		
Debenture Interest due W4	••7,000 (2)		
Corporation Tax	17,000 (2)	(108,000)	96,500
			1,044,700
Financed by:			
Creditors: Amounts falling due after more than 1 year			
10% Debentures			140,000 (2)
Capital and Reserves	Auth'd.	Issued	
Ordinary Shares @ €1 each	800,000 (2)	600,000 (2)	
Profit and Loss balance 31/12/2018		••304,700 (2)	904,700
Capital Employed			1,044,700

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

NOTES:

2. Depreciation and Revaluation of Fixed Assets (60)

The following details were taken from the books of Sutton Ltd:

01/01/2017 Buildings at cost amounted to €730,000.

01/01/2017 The balance in the Provision for Depreciation Account was €68,000.

01/08/2017 Purchased a building for €210,000.

01/10/2017 Sold for €92,000 a building which cost €70,000. The book value of this building on 01/10/2017 was €49,000.

31/12/2017 The total depreciation for the year ended 31/12/2017 was €24,000.

01/01/2018 The buildings were re-valued at €980,000.

31/12/2018 Provide for depreciation at the rate of 2·5% of the value of the buildings on 01/01/2018.

(a) The **Buildings Account** for the two years **2017** and **2018**. (15)

Buildings Account

Date	Details	€	Date	Details	€
01/01/2017	Balance b/d	730,000 (2)	01/10/2017	Disposal (1)■	70,000 (3)
01/08/2017	Bank (1)■	210,000 (3)	31/12/2017	Balance c/d	870,000
		940,000			940,000
01/01/2018	Balance b/d	870,000			
01/01/2018	Revaluation Reserve (1)■	•110,000 (3)	31/12/2018	Balance c/d	980,000 (1)
		980,000			980,000
01/01/2019	Balance b/d	980,000			

• Allow full marks for student's own figure to make €980,000.
■ Allow 1 mark for correct word(s) if figure is incorrect <u>or</u> omitted.

(b) The **Provision for Depreciation Account** for the two years **2017** and **2018**. (20)

Provision for Depreciation Account

Date	Details	€	Date	Details	€
01/10/2017	Disposal (1)■	21,000 (3)	01/01/2017	Balance b/d	68,000 (2)
31/12/2017	Balance c/d	71,000 (1)	31/12/2017	Profit & Loss / Deprec. (1)■	24,000 (3)
		92,000			92,000
01/01/2018	Revaluation Reserve (1)■	•71,000 (3)	01/01/2018	Balance b/d	71,000
31/12/2018	Balance c/d	••24,500 (1)	31/12/2018	Profit & Loss / Deprec. (1)■	24,500 (3)
		95,500			95,500
			01/01/2019	Balance b/d	24,500

• Allow full marks for student's own figure for €71,000 if consistent with previous work.
•• Allow full marks for student's own figure to balance account.
■ Allow 1 mark for correct word(s) if figure is incorrect <u>or</u> omitted.

2. Depreciation and Revaluation of Fixed Assets (cont'd.)

(c) The **Buildings Disposal Account** for the year ended **31/12/2017**. (15)

Buildings Disposal Account

Date	Details	€	Date	Details	€
01/10/2017	Buildings (1)■	•70,000 (3)	01/10/2017	Provision for Deprec. (1)■	•21,000 (3)
31/12/2017	Profit & Loss / Profit on Disposal (1)■	••43,000 (2)	01/10/2017	Bank (1)■	92,000 (3)
		113,000			113,000

- • Allow full marks for student's own figures for €70,000 and €21,000 if consistent with previous work.
- •• Allow full marks for student's own figure to balance account.
- ■ Allow 1 mark for correct word(s) if figure is incorrect or omitted.

(d) The **Revaluation Reserve Account**. (10)

Revaluation Reserve Account

Date	Details	€	Date	Details	€
			01/01/2018	Buildings (1)■	•110,000 (4)
31/12/2018	Balance c/d	181,000	01/01/2018	Provision for Deprec. (1)■	•71,000 (4)
		181,000			181,000
			01/01/2019	Balance b/d	181,000

- • Allow full marks for student's own figures for €110,000 and €71,000 if consistent with previous work.
- ■ Allow 1 mark for correct word(s) if figure is incorrect or omitted.

3. Company Profit and Loss (60)

The following information was extracted from the books of Creed Ltd:

- Creed Ltd has an Authorised Capital of 900,000 Ordinary Shares at €1 each and 600,000 5% Preference Shares at €1 each.
- The company has already issued 650,000 of the Ordinary Shares and 450,000 5% Preference Shares.
- On 01/01/2018, the company's General Reserve Account showed a balance of €92,000.
- Creed Ltd had carried forward a profit of €258,000 from 2017 and the accounts showed profits of €189,000 before interest and taxation for the year ended 31/12/2018.
- During the year a total dividend of 9c per ordinary share was paid to the Ordinary Shareholders and the total preference dividend for the year was paid to the Preference Shareholders.

On 31/12/2018, the directors recommended that:

(i) Interest of €25,000 to be provided for.
(ii) Taxation of €46,000 to be provided for.
(iii) The General Reserve to be increased by €19,000.

(a) Show the **Profit and Loss Account** for the year ended 31/12/2018. (35)

Profit and Loss Account (of Creed Ltd)
for the year ended 31/12/2018

	€	€
Net Profit for the year		189,000 (2)
Less: Interest (1)■		(25,000)(4)
Less: Taxation (1)■		(46,000)(4)
Net Profit after Taxation		118,000
Less: Appropriations		
Increase in General Reserve (1)■	19,000 (4)	
Ordinary Dividend (1)■ W1	58,500 (4)	
Preference Dividend (1)■ W2	22,500 (4)	(100,000)
Retained Profit for the year		18,000
Retained Profit 01/01/2018		258,000 (5)
Retained Profits carried forward		•276,000 (3)

- • Allow full marks for student's own figure for €276,000 if consistent with previous work.
- ■ Allow 1 mark for correct word(s) if figure is incorrect or omitted.

Workings:

		€
W1	Ordinary Dividend [650,000 × 9c]	58,500 (4)
W2	Preference Dividend [5% of €450,000]	22,500 (4)

3. Company Profit and Loss (cont'd.)

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

Balance Sheet (Extract) (of Creed Ltd)
as at 31/12/2018

	€	€
Fixed Assets / Current Assets		1,416,000
Creditors: amounts falling due within 1 year **(1)**■■		
Interest due	••25,000 **(3)**	
Taxation due	••46,000 **(3)**	71,000
		1,487,000
Financed by:		
Capital and Reserves **(1)**		
Share Capital	Auth'd.	Issued
Ordinary Shares at €1	900,000 **(2)**	650,000 **(2)**
5% Preference Shares at €1	600,000 **(2)**	450,000 **(2)**
	1,500,000	1,100,000 **(1)**
Reserves		
General Reserve W3	111,000 **(4)**	
Profit and Loss balance 31/12/2018	••276,000 **(4)**	387,000
Shareholders' Funds		1,487,000

•• Allow full marks for student's own figures for €25,000, €46,000 and €276,000 if consistent with previous work.
■■ Allow 'Current Liabilities' as heading.

Workings:

		€
W3	General Reserve	
	Balance 01/01/2018	92,000 **(2)**
	+ Increase in Reserve	19,000 **(2)**
	Balance 31/12/2018	111,000

4. Correction of Errors and Suspense Account **(60)**

The Trial Balance of Ron Daly failed to agree on 31/12/2018 and the difference was entered in a suspense account. On examination of the books, the following errors were revealed:

1. Goods sold on credit to Grady Ltd €10,700 had not been entered in the books.
2. Goods for resale, taken by Ron Daly for private use, €1,600 had not been entered in the books.
3. Interest received €600 had been treated as interest paid.
4. Wages paid, €900 by cheque, had not been entered in the books.
5. The Sales Returns Book had been under-totted by €350.

(a) **Journalise** the necessary corrections. (35)

General Journal of Ron Daly

	Dr. €	Cr. €
1. Grady Ltd **(1)**■	10,700 **(2)**	
Sales **(1)**■		10,700 **(2)**
** Being correction of an error of omission of sales in the books. **(1)**		
2. Drawings / Capital **(1)**■	1,600 **(2)**	
Purchases **(1)**■		1,600 **(2)**
** Being correction of an error of omitting goods taken for private use in the books. **(1)**		
3. Suspense **(1)**■	1,200 **(1)**	
Interest Received **(1)**■		600 **(1)**
Interest Paid **(1)**■		600 **(1)**
** Being correction of an error of treating interest received as interest paid in the books. **(1)**		
4. Wages **(1)**■	900 **(2)**	
Bank **(1)**■		900 **(2)**
** Being correction of an error of omitting wages paid in the books. **(1)**		
5. Sales Returns **(1)**■	350 **(2)**	
Suspense **(1)**■		350 **(2)**
** Being correction of an error of under-totting (the total in) the Sales Returns Book. **(1)**		

** Accept student's own wording if equivalent meaning conveyed.

■ Allow 1 mark for correct word(s) if figure is incorrect <u>or</u> omitted.

4. Correction of Errors and Suspense Account (cont'd.)

(b) Prepare a **Statement of Corrected Net Profit** if net profit as per accounts is €16,500. (25)

Statement of Corrected Net Profit

		€	€
Original Net Profit			16,500 (2)
Add: Sales	(1)	•10,700 (4)	
Purchases	(2)	•1,600 (4)	
Interest received■■	(3)	•600 (2)	
Interest paid■■	(3)	•600 (2)	13,500
			30,000
Less: Wages	(4)	•900 (4)	
Sales Returns	(5)	•350 (4)	(1,250)
Corrected Net Profit			••28,750 (3)

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

■■ Allow 4 marks for correct combined interest entry, *i.e.* 'Interest received/paid €1,200'.

5. Interpretation of Accounts **(100)**

The following information has been taken from the accounts of Mulryan Ltd for the year ended 31/12/2018:

Trading and Profit and Loss Account for the year ended 31/12/2018			
	€	**€**	**€**
Credit Sales			960,000
Less: Cost of Sales			
Stock 01/01/2018		?????	
Add: Credit Purchases		508,000	
		?????	
Less: Stock 31/12/2018		42,000	
Cost of Sales			?????
Gross Profit			432,000
Less: Total Expenses (including Interest paid €14,000)			280,000
Net Profit for year			152,000

Balance Sheet as at 31/12/2018			
	€	**€**	**€**
	Cost	**Depreciation**	**NBV**
Fixed Assets	1,200,000	50,000	1,150,000
Current Assets (including Trade Debtors €45,000)		164,000	
Less Creditors: amounts falling due within 1 year			
Trade Creditors		112,000	52,000
			1,202,000
Financed by:			
Creditors: amounts falling due after more than 1 year			
7% Debentures (2025/2026)			200,000
Capital and Reserves	**Authorised**	**Issued**	
Ordinary Shares at €1 each	1,100,000	850,000	
Profit and Loss Account		152,000	1,002,000
			1,202,000

5. Interpretation of Accounts (cont'd.)

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

(i) The figure for Opening Stock (10)

=	Cost of Sales	+	Closing Stock	–	Purchases
=	(€960,000 – €432,000)	+	€42,000	–	€508,000
=	€528,000 **(4)**	+	€42,000 **(2)**	–	€508,000 **(2)**
=	€62,000 **(2)**				

or

Trading Account for the year ended 31/12/2018

	€	€
Credit Sales		960,000
Less Cost of Sales		
Stock 01/01/2018	62,000 **(2)**	
Purchases	508,000 **(2)**	
	570,000	
Less Stock 31/12/2018	(42,000)**(2)**	
Cost of Sales		528,000 **(4)**
Gross Profit		432,000

** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** No deduction if '€' symbol omitted.

(ii) Rate of Stock Turnover (10)

Rate of Stock Turnover

$$= \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

Average Stock

$$= \frac{\text{Opening Stock + Closing Stock}}{2}$$

$$= \frac{{}^{\bullet}62{,}000\ \mathbf{(2)} + 42{,}000\ \mathbf{(2)}}{2}$$

$$= \frac{104{,}000}{2}$$

$$= {}^{\bullet}€52{,}000\ \mathbf{(1)}$$

⇒ Rate of Stock Turnover

$$= \frac{528{,}000\ \mathbf{(2)}}{{}^{\bullet}52{,}000\ \mathbf{(1)}}$$

$$= 10{\cdot}153846...$$

$$= 10{\cdot}15 \text{ times } \mathbf{(2)}$$

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

** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** Penalise 1 mark if 'times' omitted or final answer not rounded off to two decimal places.
** Allow 2 marks for correct formula if no other work shown.

5. Interpretation of Accounts (cont'd.)

(a) (cont'd.)

(iii) Percentage mark-up on cost (10)

Percentage mark-up on cost

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

$$= \frac{432{,}000\ \mathbf{(3)}}{528{,}000\ \mathbf{(3)}} \times \frac{100}{1}\ \mathbf{(2)}$$

$$= 81{\cdot}818181\ldots$$

$$\cong 81{\cdot}82\%\ \mathbf{(2)}$$

** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** Penalise 1 mark if '%' symbol omitted or final answer not rounded off to two decimal places.
** Allow 2 marks for correct formula if no other work shown.

(iv) Return on Capital Employed. (10)

Return on Capital Employed

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

$$= \frac{152{,}000\ \mathbf{(2)} + 14{,}000\ \mathbf{(4)}}{1{,}202{,}000\ \mathbf{(2)}} \times \frac{100}{1}$$

$$= \frac{166{,}000}{1{,}202{,}000} \times \frac{100}{1}$$

$$= 13{\cdot}810316\ldots$$

$$\cong 13{\cdot}81\%\ \mathbf{(2)}$$

** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** Penalise 1 mark if '%' symbol omitted or final answer not rounded off to two decimal places.
** Allow 2 marks for correct formula if no other work shown.

5. Interpretation of Accounts (cont'd.)

(b) **Explain** the following terms and **state how they apply to the above accounts** (where appropriate):

(i) Shareholders' Funds (10)

- the amount of money in the business (2) that belongs to the shareholders (2)
- consists of Issued Share Capital (1) €850,000 (2) plus Retained Profits/Reserves (1) €152,000 (2) in the above accounts / Balance Sheet

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

(ii) Liquid Assets (10)

- current assets (1) that can be turned into cash (1) quickly (1)
- equal to current assets (2) less closing stock (2)
- in the above accounts / Balance Sheet, liquid assets are €164,000 (1) – €42,000 (1) = €122,000 (1)

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

(iii) Authorised Share Capital (10)

- the amount of shares (2) that can be issued (2) by Mulryan Ltd (2)
- 1,100,000 (2) Ordinary Shares (2) in the above accounts / Balance Sheet

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

(iv) Depreciation. (10)

- the loss in value (2) of a fixed asset (2)
  during the year (1) due to wear and tear (1) or the passage of time (1)
- a business must decide a suitable percentage for the yearly charge (1)
- depreciation in the above accounts / Balance Sheet is €50,000 (2)

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

5. Interpretation of Accounts (cont'd.)

(c) (i) Calculate the Acid Test Ratio for **2018** (to two decimal places). (5)

Acid Test Ratio
= (Current Assets – Closing Stock) : Current Liabilities
= (164,000 **(1)** – 42,000 **(1)**) : 112,000 **(1)**
= 122,000 : 112,000
= 1·089285... : 1
= 1·09 : 1 **(2)**

** Award full marks for correct answer <u>even</u> if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** Penalise 1 mark if final answer not rounded off to two decimal places.
** Allow 2 marks for correct formula if no other work shown.

(ii) What does this ratio tell us about Mulryan Ltd? (5)

– the Acid Test Ratio of •1·09 : 1 **(1)** is above the ideal of 1:1 **(2)**
<u>and</u>

Any 1:
– the company has liquid assets of •€1·09 [<u>or</u> 109c] **(1)** for every €1 [<u>or</u> 100c] that it owes **(1)** //
– for every €1 [<u>or</u> 100c] that the company owes **(1)**, it has •€1·09 [<u>or</u> 109c] to cover it **(1)**

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

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

(d) The Return on Capital Employed for Mulryan Ltd in **2017** was 9·5%.
Comment on the current profitability of Mulryan Ltd in **2018**. (10)

– Return on Capital Employed has •increased **(2)** by •4·31% **(2)** from 9·5% in 2017 to 13·81% in 2018
– very good return **(2)** as the shareholders / investors would have only received approximately ••2% **(2)** from risk-free investments / if they had deposited their money in a bank **(2)**

• Allow full marks for student's own figure if consistent with previous work.
•• Accept any figure between 0·5% and 4%.

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

6. Cash Flow Statement (100)

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

Profit and Loss (extract) for the year ended 31/12/2018	**€**
Operating Profit	91,000
Interest paid	(14,000)
	77,000
Taxation	(25,000)
	52,000
Dividends paid	(10,000)
Retained Profit for year	42,000
Profit and Loss balance 01/01/2018	124,000
Profit and Loss balance 31/12/2018	166,000

Balance Sheets as at	**31/12/2018**		**31/12/2017**	
	€	**€**	**€**	**€**
Fixed Assets				
Land and Buildings	990,000		880,000	
Less: Depreciation provision	(95,000)	895,000	(78,000)	802,000
Current Assets				
Stock	62,000		68,000	
Debtors	32,000		25,000	
Bank	7,000		12,000	
	101,000		105,000	
Less Creditors: amounts falling due within 1 year				
Creditors	40,000		24,000	
Taxation	25,000		19,000	
	(65,000)		(43,000)	
Net Current Assets		36,000		62,000
Total Net Assets		931,000		864,000
Financed by				
Creditors: amounts falling due after 1 year				
7% Debentures		165,000		230,000
Capital and Reserves				
Ordinary Share Capital issued		580,000		500,000
Share Premium		20,000		10,000
Profit and Loss Account		166,000		124,000
		931,000		864,000

6. Cash Flow Statement (cont'd.)

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

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	€	€
Operating Profit		91,000 (3)
Depreciation charges for the year (2)■	17,000 (4)	
Decrease (1) in Stock (1)■	6,000 (4)	
Increase (1) in Debtors (1)■	(7,000)(4)	
Increase (1) in Creditors (1)■	16,000 (4)	32,000
Net Cash Inflow (1)■■ from Operating Activities		●●123,000 (2)

●● Accept correct figure only.
■ Allow 2 marks for correct word(s) even if figure is incorrect or omitted.
■■ Allow 1 mark for correct word(s) even if figure is incorrect or omitted.

(b) Prepare the **Cash Flow Statement** of Dwyer Ltd for the year ended 31/12/2018 using the following headings:

1. Operating activities
2. Return on investments and servicing of finance
3. Taxation
4. Capital expenditure and financial investment
5. Equity dividends paid
6. Financing. (60)

Cash Flow Statement (of Dwyer Ltd) for the year ended 31/12/2018

	€	€
Operating Activities (2)		
Net Cash Inflow from Operating Activities		●123,000 (3)
Return on Investments and Servicing of Finance (2)		
Interest (1) paid (1)■		(14,000)(3)
Taxation (2)		
Tax (1) paid (1)■		(19,000)(3)
Capital Expenditure and Financial Investment (2)		
Purchase of Land and Buildings / Fixed Assets (2)■		(110,000)(4)
Equity Dividends Paid (2)		
Dividends (1) paid (1)■		(10,000)(4)
Net Cash Outflow before Liquid Resources and Financing		(30,000)
Financing (2)		
Issue of Ordinary Share Capital (2)■	80,000 (4)	
Issue of Share Premium (2)■	10,000 (4)	
	90,000	
Repayment of Debentures (2)■	(65,000)(4)	25,000
Decrease in Cash (2)■		●●(5,000) (3)

● Allow full marks for student's own figure if consistent with previous work.
●● Accept correct figure only.
■ Allow marks for correct word(s) even if figure is incorrect or omitted.
** No penalty for headings out of sequence.
** Penalise 2 marks for each item under the incorrect heading, up to a maximum deduction of –6.

6. Cash Flow Statement (cont'd.)

(c) **Reconcile** the Net Cash Flow to Movement in Net Debt. (10)

Reconciliation of Net Cash Flow to Movement in Net Debt

	€
Decrease in cash in the period	•(5,000) (2)
Repayment of Debentures	•65,000 (2)
Change in Net Debt	••60,000 (2)
Net Debt 01/01/2018 [€230,000 – €12,000]	(218,000) (2)
Net Debt 31/12/2018 [€165,000 – €7,000]	••(158,000) (2)

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

7. Incomplete Records – Control Accounts (100)

Mary Maguire did not keep a full set of books during the year ended 31/12/2018.
The following is a summary of the cash account for that period.

Cash Receipts	**€**		**€**
Balance 01/01/2018	13,700		
Debtors	82,500		
Rent Received	6,000		
Sales	142,200		244,400
Cash Payments			
Purchases	91,200		
Drawings	3,800		
Wages and General Expenses	42,300		
Creditors	37,600		
Equipment	22,000		196,900

The following additional information is also available:

	01/01/2018		**31/12/2018**
	€		**€**
Premises	550,000		550,000
Delivery Vans	33,000		33,000
Debtors	12,800		11,600
Stock	17,500		16,900
Creditors	5,600		4,800
Expenses due	2,300		1,600

Note: Depreciate Premises by **3%** of cost per annum.
Depreciate Delivery Vans by **15%** of cost per annum.

(a) Calculate Mary Maguire's **Capital** on 01/01/2018. (10)

Statement of Capital (of Mary Maguire)
on 01/01/2018

Assets	€	€
Premises		550,000 **(1)**
Delivery Vans		33,000 **(1)**
Debtors		12,800 **(1)**
Stock		17,500 **(1)**
Cash		13,700 **(2)**
		627,000
Less Liabilities		
Creditors	5,600 **(1)**	
Expenses due	2,300 **(1)**	7,900
Capital on 01/01/2018		●●619,100 **(2)**

●● Accept correct figure only.

7. Incomplete Records – Control Accounts (cont'd.)

(b) Calculate Mary Maguire's **Total Sales** and **Total Purchases** using **Control Accounts**.

❶ Total Sales (10)

Debtors Ledger Control Account

Date	Details	€	Date	Details	€
01/01/2018	Balance b/d	12,800 (2)	31/12/2018	Cash	82,500 (2)
31/12/2018	Credit Sales	81,300 (1)	31/12/2018	Balance c/d	11,600 (2)
		94,100			94,100

Total Sales:	Credit Sales	81,300
	Cash Sales	142,200 (3)
	Total Sales	223,500

❷ Total Purchases (10)

Creditors Ledger Control Account

Date	Details	€	Date	Details	€
31/12/2018	Cash	37,600 (2)	01/01/2018	Balance b/d	5,600 (2)
31/12/2018	Balance c/d	4,800 (2)	31/12/2018	Credit Purchases	36,800 (1)
		42,400			42,400

Total Purchases:	Credit Purchases	36,800
	Cash Purchases	91,200 (3)
	Total Purchases	128,000

(c) Prepare a **Trading and Profit and Loss Account** for the year ended 31/12/2018. (30)

Trading, Profit and Loss Account (of Mary Maguire)
for year ended 31/12/2018

	€	€
Sales		•223,500 (3)
Less Cost of Sales		
Stock 01/01/2018	17,500 (2)	
Add Purchases	•128,000 (3)	
	145,500	
Less Stock 31/12/2018	(16,900) (2)	
		(128,600)
Gross Profit		94,900
Less Expenses		
Wages & Gen. Expenses W1	41,600 (6)	
Depreciation: Premises W2	••16,500 (3)	
Del. Vans W3	••4,950 (3)	(63,050)
		31,850
Add		
Rent Received		6,000 (4)
Net Profit		••37,850 (4)

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

Workings:

W1 Wages and General Expenses

	€
Payments during the year	42,300 (2)
– Expenses due 01/01/2018	(2,300) (2)
	40,000
+ Expenses prepaid 31/12/2018	1,600 (2)
Total for the year	41,600

W2 Depreciation:

	€
Premises [3% of €550,000]	16,500 (3)

W3 Depreciation:

	€
Delivery Vans [15% of €33,000]	4,950 (3)

7. Incomplete Records – Control Accounts (cont'd.)

(d) Prepare a **Balance Sheet** as at 31/12/2018. (40)

Balance Sheet (of Mary Maguire)
as at 31/12/2018

	€	€	€
Fixed Assets	Cost	Dep.	N.B.V.
Premises	550,000 (2)	•16,500 (2)	•533,500 (2)
Delivery Vans	33,000 (2)	•4,950 (2)	•28,050 (2)
Equipment	22,000 (2)	—	22,000 (2)
	605,000	21,450	583,550
Current Assets			
Stock 31/12/2018	16,900 (3)		
Debtors	11,600 (3)		
Bank [€244,400 – €196,900]	••47,500 (6)	76,000	
Less Creditors: Amounts falling due within 1 year			
Creditors	4,800 (3)		
Expenses due	1,600 (3)	(6,400)	
Working Capital			69,600
Net Current Assets			653,150
Financed by:			
Capital 01/01/2018		•619,100 (2)	
Add Net Profit		•37,850 (2)	656,950
Less Drawings			(3,800)(2)
Capital Employed			653,150

• Allow full marks for student's own figure if consistent with previous work.
•• Allow 1 mark for 'Bank' even if figure is incorrect or omitted.

8. Absorption Costing **(80)**

Taffy Ltd, a manufacturing company, has two production departments, Department X and Department Y, and one service department, Department Z. Taffy Ltd supplies the following information for the coming year.

	Production		Service
	Dept. X	**Dept. Y**	**Dept. Z**
Overhead costs allocated per department	€60,000	€40,000	€12,000
Service Department Z costs to be divided	80%	20%	—
Budgeted machine hours	3,000	—	—
Budgeted labour hours	—	2,000	—

(a) Apportion (divide) **overhead costs** of Service Department Z to Department X and Department Y as per instruction above. (16)

❶ Department X

Overhead costs of Dept. Z apportioned = 12,000 (3) × 80% (3)
= €9,600 (2)

❷ Department Y

Overhead costs of Dept. Z apportioned = 12,000 (3) × 20% (3)
= €2,400 (2)

** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** No deduction if '€' symbol omitted.

(b) Calculate the **total overhead costs** to be absorbed by Department X and Department Y. (12)

❶ Department X

		€
Overhead costs allotted per department	=	60,000 (2)
Overhead costs of Dept. Z apportioned to Dept. X	=	•9,600 (2)
Total overhead costs to be absorbed		••69,600 (2)

❷ Department Y

		€
Overhead costs allotted per department	=	40,000 (2)
Overhead costs of Dept. Z apportioned to Dept. Y	=	•2,400 (2)
Total overhead costs to be absorbed		••42,400 (2)

• Allow full marks for student's own figures for 'Overhead costs of Dept. Z apportioned to Dept. X' (€9,600) and 'Overhead costs of Dept. Z apportioned to Dept. Y' (€2,400) if consistent with previous work.
•• Allow full marks for student's final figure if consistent with previous work.
** Award full marks for correct answer even if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** No deduction if '€' symbol omitted.

8. Absorption Costing (cont'd.)

(c) Calculate the overhead absorption rate for **Department X** using **Machine Hours**. (11)

$$\text{Overhead absorption rate} = \frac{\text{Total Overheads for Department X}}{\text{Budgeted machine hours}}$$

$$= \frac{^{\bullet}69{,}600\ \mathbf{(4)}}{3{,}000\ \mathbf{(4)}}$$

$$= {}^{\bullet\bullet}€23{\cdot}20\ \mathbf{(2)}\ \text{per machine hour}\ \mathbf{(1)}$$

- • Allow full marks for student's own figure for 'Total Overheads for Department X' (€69,600) if consistent with previous work.
- •• Allow full marks for student's own final figure if consistent with previous work.

- ** Award full marks for correct answer even if no workings are shown.
- ** Figures in brackets show the breakdown of marks if answer incomplete.
- ** Penalise 1 mark if 'per machine hour' omitted but no deduction if '€' symbol omitted.

(d) Calculate the overhead absorption rate for **Department Y** using **Labour Hours**. (11)

$$\text{Overhead absorption rate} = \frac{\text{Total Overheads for Department Y}}{\text{Budgeted labour hours}}$$

$$= \frac{^{\bullet}42{,}400\ \mathbf{(4)}}{2{,}000\ \mathbf{(4)}}$$

$$= {}^{\bullet\bullet}€21{\cdot}20\ \mathbf{(2)}\ \text{per labour hour}\ \mathbf{(1)}$$

- • Allow full marks for student's own figure for 'Total Overheads for Department Y' (€42,400) if consistent with previous work.
- •• Allow full marks for student's own final figure if consistent with previous work.

- ** Award full marks for correct answer even if no workings are shown.
- ** Figures in brackets show the breakdown of marks if answer incomplete.
- ** Penalise 1 mark if 'per labour hour' omitted but no deduction if '€' symbol omitted.

8. Absorption Costing (cont'd.)

The details of a customer's **Job No. 1006** are as follows:

Direct materials	€2,000
Direct labour	€850
Hours in Department X	8 hours
Hours in Department Y	3 hours

(e) Calculate the **total cost** of Job No. 1006. (14)

Total Cost

			€	
Direct materials		=	2,000	(2)
Direct labour		=	850	(2)
Overheads - Dept. X	[8 hours × •€23·20]	=	•185·60	(4)
- Dept. Y	[3 hours × •€21·20]	=	•63·60	(4)
Total cost of Job No. 1006		=	••3,099·20	(2)

• Allow full marks for student's own figures for 'Overhead absorption rate for Department X' (€23·20) and 'Overhead absorption rate for Department Y' (€21·20) if consistent with previous work.
•• Allow full marks for student's own final figure if consistent with previous work.

** Award full marks for correct answer <u>even</u> if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** No deduction if '€' symbol omitted.

(f) Calculate the **selling price** of Job No. 1006 if the mark-up on cost is 30%. (8)

Selling Price

			€	
Total cost		=	•3,099·20	(2)
Mark-up	[30% of cost]	=	••929·76	(4)
Selling price of Job No. 1006		=	••4,028·96	(2)

• Allow full marks for student's own figure for 'Total cost' (€3,099·20) if consistent with previous work.
•• Allow full marks for student's own final figure if consistent with previous work.

** Award full marks for correct answer <u>even</u> if no workings are shown.
** Figures in brackets show the breakdown of marks if answer incomplete.
** No deduction if '€' symbol omitted.

(g) State **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 (3) to make a profit (1) //
- to see if the product is worthwhile producing (3) or not (1) / to see if it is possible to make a profit (3) producing the product (1) //
- to see if the business can afford (3) to make the product (1) // *etc*.

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

9. Cash Budgeting (80)

Alan Gavin provides the following information at the end of January 2019:

	€
Debtors 01/02/2019 (December sales €81,000 and January sales €75,000)	156,000
Creditors 01/02/2019	63,000
Bank balance 01/02/2019	32,000

Alan expects his sales, purchases and expenses for the next five months to be:

	February	March	April	May	June
Sales	€62,000	€85,300	€72,000	€68,200	€85,000
Purchases	€35,600	€60,000	€41,200	€32,000	€39,100
Expenses	€6,000	€12,000	€13,000	€14,000	€16,000

You are given the following additional information:

- All sales are on credit and are paid for two months after the month of sale.
- All purchases are on credit, **except** €15,000 for cash in March, and are paid for one month after the month of purchase.
- Rent per month is to be €2,000 and increases to €2,300 from 1 May. (Rent is not included in expenses above.)
- A Delivery Van will be bought in May for €28,000 cash.
- Expenses are paid as they are incurred.

9. Cash Budgeting (cont'd.)

(a) Prepare a **Cash Budget** on a monthly basis for the period February to June inclusive and also the total column for the period. (74)

Cash Budget (for Alan Gavin)
for the five months February to June 2019

		Feb. €	Mar. €	Apr. €	May €	June €	Total €	
Receipts								
Debtors	- February	81,000 (2)					81,000	(2) Individual figures or total
	- March		75,000 (2)				75,000	
	- April			62,000 (2)			62,000	
	- May				85,300 (2)		85,300	
	- June					72,000 (2)	72,000	
Total Receipts		81,000	75,000	62,000	85,300	72,000	375,300	
Payments								
Creditors	- January	63,000 (1)					63,000	(2) Individual figures or total
	- February		50,600 (2)				50,600	
	- March			45,000 (2)			45,000	
	- April				41,200 (1)		41,200	
	- May					32,000 (1)	32,000	
Expenses		6,000 (2)	12,000 (2)	13,000 (2)	14,000 (2)	16,000 (2)	61,000 (2)	
Rent		2,000 (1)	2,000 (1)	2,000 (1)	2,300 (2)	2,300 (2)	10,600 (2)	
Delivery Van					28,000 (2)		28,000 (2)	
Total Payments		71,000	64,600	60,000	85,500	50,300	331,400	
Net Cash		•10,000 (2)	•10,400 (2)	•2,000 (2)	•(200)(2)	•21,700 (2)	•43,900 (2)	
Opening Cash		••32,000 (2)	•42,000 (1)	•52,400 (1)	•54,400 (1)	•54,200 (1)	••32,000 (2)	
Closing Cash		•42,000 (1)	•52,400 (1)	•54,400 (1)	•54,200 (1)	•••75,900 (2)	•••75,900 (2)	

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

(b) What information can Alan obtain from the prepared Cash Budget? (6)

Any 2: **(2 × 3)**

- a cash budget will show all the cash inflows and outflows during the period //
- a cash budget will show the cash surplus/deficit at the end of each month //
- a cash budget will help to decide whether a bank overdraft may be needed / will help to decide how to invest any surplus //
- it will help to plan and control the business // *etc.*

** Accept other appropriate answers.

NOTES:

Pre-Leaving Certificate Examination, 2019

Accounting

Higher Level
Marking Scheme (400 marks)

Explanation

Conventions 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 with 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.

1. Company Final Accounts (120)

Hill Ltd has an Authorised Capital of €1,900,000 divided into 1,300,000 Ordinary Shares at €1 each and 600,000 4% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2018:

	€	€
Buildings (cost €1,250,000)	1,100,000	
Delivery Vans (cost €310,000	220,000	
Office Equipment (cost €45,000)	35,000	
Patents (incorporating four months' investment income)	30,500	
3% Investments (01/06/2018)	150,000	
Discount (Net)		12,700
Profit and Loss balance 01/01/2018	51,000	
6% Debentures (including €80,000 issued on 31/03/2018)		280,000
Stock 01/01/2018	83,200	
Purchases and Sales	1,460,000	1,880,000
Bad Debts provision		5,200
Debtors and Creditors	102,600	87,500
PAYE, PRSI and USC		22,200
Dividends paid	28,000	
Bank		35,000
VAT		15,000
Advertising	48,000	
Issued Share Capital – Ordinary Shares		800,000
– 4% Preference Shares		400,000
Salaries and General Expenses (including Suspense)	245,700	
Capital Reserve		20,000
Debenture Interest for the first three months	3,600	
	3,557,600	3,557,600

The following information and instructions are to be taken into account:

(i) Stock on 31/12/2018 at cost was €91,200. This figure includes damaged stock which cost €5,600 and now has a net realisable value of €2,000.

(ii) Patents, incorporating 4 months' investment income, are to be written off over a 5-year period commencing in 2018.

(iii) The suspense figure arises as a result of the incorrect figure for debenture interest and a VAT payment of €2,500 entered on the incorrect side of the VAT account. Both transactions were entered correctly in the bank account.

(iv) A debtor who owed Hill Ltd €24,000 sent a cheque for €23,500 in full settlement. No entry was made in the books in respect of this transaction.

(v) During the year, a store room which cost €20,000 and stock which cost €12,000 were destroyed by fire. A new store was built by the firm's own workers. The cost of their labour €28,000 had been treated as a business expense and the materials costing €62,000 were taken from the firm's stocks. The insurance company has agreed to contribute €30,000 in compensation for the fire damage. No adjustment had been made in the books in respect of the old store, the destroyed stock or the new store.

(vi) Provide for depreciation on delivery vans at the annual rate of 15% of cost from the date of purchase to the date of sale.

NOTE: On 31/05/2018 a delivery van which had cost €44,000 on 31/08/2015 was traded in against a new van that cost €58,000. An allowance of €20,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction.

1. Company Final Accounts (cont'd.)

(vii) The figure for Advertising is for a 24-month campaign which began on 01/06/2018.

(viii) A creditor who was owed €12,800 accepted office equipment with a book value of €11,600 in full settlement of the debt. The office equipment had cost €16,000. No entry was made in the books in respect of this transaction. Provide for depreciation on office equipment held on 31/12/2018 at the rate of 20% of cost.

(ix) No record has been made in the books for 'goods in transit' on 31/12/2018. The invoice for these goods has been received for €18,450 including VAT at 23%.

(x) The Directors recommend that:
1. Provision be made for both Investment Income and Debenture Interest due.
2. Provision for bad debts to be adjusted to 5% of debtors.
3. Buildings to be depreciated by 2% of cost.
4. The managing director should be paid a bonus commission of 2·5% on all sales in excess of €1,250,000 and a further 4% in excess of all sales above €1,500,000.

(a) Prepare a Trading and Profit and Loss Account for the year ended 31/12/2018. (75)

Trading, Profit and Loss Account (of Hill Ltd)
for the year ended 31/12/2018 (1)

	€	€
Sales		1,880,000 (2)
Less Cost of Sales		
Stock 01/01/2018	83,200 (2)	
Purchases W1	1,363,000 (9)	
	1,446,200	
Less Stock 31/12/2018 W2	(102,600)(5)	
Cost of Goods Sold		(1,343,600)
Gross Profit		536,400
Less Expenses		
Administration Expenses ■■		
Salaries & General Expenses W3	213,300 (7)	
Patents written off ■ W4	6,400 (5)	
Loss on Insured Store and Stock W5	2,000 (5)	
Depreciation: Buildings W7	26,400 (3)	
Office Equipment W10	5,800 (3)	
	253,900	
Selling & Distribution Expenses ■■		
Sales Commission W12	30,950 (4)	
Advertising W13	14,000 (3)	
Loss on Sale of Delivery Van ■ W14	5,850 (5)	
Depreciation: Delivery Vans W16	47,725 (5)	
	98,525	(352,425)
		183,975
Operating Income		
Reduction in Bad Debts prov. ■ W19	1,270 (3)	
Discount (Net) ■ W20	13,400 (3)	14,670
Operating Profit		198,645
Investment Income ■ W21		2,625 (2)
Debenture Interest ■ W23		(15,600)(2)
Net Profit		185,670
Less Dividends paid		(28,000)(2)
Retained Profit		157,670
Profit and Loss balance 01/01/2018		(51,000)(2)
Profit and Loss balance 31/12/2018		●●● 106,670 (2)

● Allow 1 mark for student's own figure.
●● Allow full marks for student's own figure if consistent with previous work.
●●● Accept correct figure only.

■ Allow 1 mark for correct word(s) if figure is incorrect or omitted.
■■ Deduct 1 mark for each missing heading in the Profit and Loss Account.

1. Company Final Accounts (cont'd.)

(b) Prepare a Balance Sheet as at 31/12/2018. (45)

Balance Sheet (of Hill Ltd)
as at 31/12/2018

	€ Cost	€ Dep.	€ NBV
Intangible Fixed Assets			
Patents W4			••25,600 (1)
Tangible Fixed Assets			
Buildings W6, 8	1,320,000 (3)	176,400 (2)	1,143,600
Office Equip. W9, 11	29,000 (1)	11,400 (3)	17,600
Delivery Vans W15, 17	324,000 (2)	119,575 (3)	204,425
	■■1,673,000	307,375	1,365,625
Financial Fixed Assets			
3% Investments			150,000 (1)
			1,541,225
Current Assets			
Stock 31/12/2018 W2		••102,600 (1)	
Compensation due 31/12/2018 W5		••30,000 (1)	
Advertising prepaid W13		••34,000 (1)	
Debtors W18	78,600 (3)		
Less Bad Debts provision W19	••(3,930)(1)	74,670	
Investment Income due W22		••1,125 (2)	
		242,395	
Less Creditors: amounts falling due within 1 year			
Sales Commission due W12		••30,950 (1)	
Debenture Interest due■ W24		12,600 (2)	
Creditors W25		93,150 (4)	
PAYE, PRSI and USC		22,200 (1)	
VAT W26		6,550 (3)	
Bank (Overdraft) W27		11,500 (2)	
		(176,950)	
Net Current Assets			65,445
Total Net Assets			1,606,670
Financed by:			
Creditors: amounts falling due after more than 1 year			
6% Debentures■■■			280,000 (1)
Capital and Reserves	Auth'd.	Issued	
Ord. Shares @ €1	1,300,000 (1)	800,000 (1)	
4% Pref. Shares @ €1	600,000 (1)	400,000 (1)	
	1,900,000	1,200,000	
Capital Reserve		20,000 (1)	
Profit & Loss Balance		••106,670 (1)	1,326,670
Capital Employed			1,606,670

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

■ Allow 1 mark for correct word(s) if figure is incorrect or omitted.
■■ Deduct 1 mark for the omission of total cost figure for 'Fixed Assets' in the Balance Sheet.
■■■ Deduct 1 mark if '6% Debentures' is shown within 'Capital and Reserves' section.

1. Company Final Accounts (cont'd.)

Workings:

W1 Purchases

	€
Figure taken from Trial Balance	1,460,000 (1)
– Stock destroyed by fire	(12,000)(2)
– Materials for new store	(62,000)(2)
– Payment for new delivery van	(38,000)(2)
+ Goods in Transit [€18,450 × 100/123]	15,000 (2)
Figure transferred to Trading a/c	1,363,000

W2 Stock 31/12/2018

	€
Figure taken from Trial Balance	91,200 (1)
– Damaged Stock [€5,600 – €2,000]	(3,600)(2)
+ Goods in Transit [€18,450 × 100/123]	15,000 (2)
Figure transferred to Trading a/c	102,600
Figure transferred to Balance Sheet	••102,600 (1)

W3 Salaries and General Expenses

	€
Figure taken from Trial Balance	245,700 (1)
+ Debenture interest error	600 (2)
– VAT payment error [€2,500 × 2]	(5,000)(2)
– Labour for new store	(28,000)(2)
Figure transferred to Profit & Loss a/c	213,300

W4 Patents

	€
Figure taken from Trial Balance	30,500 (1)
+ Investment Income Error	
[3% of €150,000 × 4/12]	•1,500 (2)
Value of Patents 01/01/2018	32,000
Patents written off in current year	
Value written off [1/5 of €32,000]	••6,400 (2)
Figure transferred to Profit & Loss a/c	6,400
Value of Patents 31/12/2018	
Value of Patents 01/01/2018	32,000
– Value written off in current year	6,400
Figure transferred to Balance Sheet	••25,600 (1)

W5 Loss on Insured Stock and Store

	€
Compensation due from Insurance	30,000 (1)
– Value of store destroyed	(20,000)(2)
– Value of stock destroyed	(12,000)(2)
Figure transferred to Profit & Loss a/c	(2,000)
Compensation due 30/12/2018	30,000 (1)
Figure transferred to Balance Sheet	30,000

W6 Buildings

	€
Cost of Buildings 01/01/2018	1,250,000
– Value of store destroyed	(20,000)(1)
+ Labour used in new store	28,000 (1)
+ Materials used in new store	62,000 (1)
Figure transferred to Balance Sheet	1,320,000

W7 Depreciation: Buildings

	€
Cost of Buildings 31/12/2018	1,320,000
Depreciation charge for the year	
[2% of €1,320,000]	••26,400 (3)
Figure transferred to Profit & Loss a/c	26,400

W8 Depreciation: Buildings

	€
Accumulated Depreciation 01/01/2018	
[€1,250,000 – €1,100,000]	150,000 (1)
Depreciation charge for the year	••26,400 (1)
Figure transferred to Balance Sheet	176,400

W9 Office Equipment

	€
Cost of Office Equipment (01/01/2018)	45,000
– Office Equipment given to creditor	(16,000)(1)
Figure transferred to Balance Sheet	29,000

W10 Depreciation: Office Equipment

	€
Depreciation charge for the year	
[20% of €29,000]	••5,800 (3)
Figure transferred to Profit & Loss a/c	5,800

W11 Depreciation: Office Equipment

	€
Accumulated Depreciation 01/01/2018	
[€45,000 – €35,000]	10,000 (1)
– Dep. to date on office equipment	
given to creditor [€16,000 – €11,600]	(4,400)(1)
	5,600
Depreciation charge for the year	••5,800 (1)
Figure transferred to Balance Sheet	11,400

W12 Sales Commission

	€
[€1,880,000 – 1,250,000) × 2·5%]	15,750 (2)
[€1,880,000 – 1,500,000) × 4%]	15,200 (2)
Figure transferred to Profit & Loss a/c	30,950
Figure transferred to Balance Sheet	••30,950 (1)

W13 Advertising

	€
Advertising	48,000 (1)
– Advertising prepaid 31/12/2018	
[€48,000 × 17/24]	(34,000)(2)
Figure transferred to Profit & Loss a/c	14,000
Figure transferred to Balance Sheet	••34,000 (1)

W14 Loss on Sale of Delivery Van

			€
Depreciation to date:			
[15% of €44,000 × 4/12]	(4 months)		2,200 (1)
[15% of €44,000 × 2]	(2 years)		13,200 (1)
[15% of €44,000 × 5/12]	(5 months)		2,750 (1)
Total depreciation to date of sale			18,150
Book value on date of sale			
Cost of Delivery Van		44,000 (1)	
– Depreciation to date		(18,150)	25,850
Allowance received			(20,000)(1)
Figure transferred to Profit & Loss a/c			5,850

W15 Delivery Vans

	€
Cost of Delivery Vans 01/01/2018	310,000
– Cost of Del. Van traded in 31/05/2018	(44,000)(1)
+ Cost of new Delivery Van 31/05/2018	58,000 (1)
Figure transferred to Balance Sheet	324,000

W16 Depreciation: Delivery Vans

		€
Depreciation charge for the year		
[15% of (€310,000 – €44,000)]		39,900 (1)
[15% of €44,000 × 5/12]	(5 months)	2,750 (2)
[15% of €58,000 × 7/12]	(7 months)	5,075 (2)
Figure transferred to Profit & Loss a/c		47,725

W17 Depreciation: Delivery Vans

	€
Accumulated Depreciation 01/01/2018	90,000 (1)
+ Depreciation charge for the year	••47,725 (1)
– Depreciation of van to date of sale	••(18,150)(1)
Figure transferred to Balance Sheet	119,575

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.

1. Company Final Accounts (cont'd.)

Workings: **(cont'd.)**

W18 Debtors

	€
Figure taken from Trial Balance	102,600 (1)
– Debtor payment not recorded	(23,500)(1)
– Discount Allowed	(500)(1)
Figure transferred to Balance Sheet	••78,600

W19 Bad Debts provision

	€
Old provision	5,200 (1)
– New provision [5% of €78,600]	••(3,930)(2)
Reduction in Bad Debts provision	1,270
Figure transferred to Profit & Loss a/c	1,270
Figure transferred to Balance Sheet	••3,930 (1)

W20 Discount (Net)

	€
Discount Received	12,700 (1)
– Discount Allowed	(500)(1)
+ Discount received from creditor	1,200 (1)
Figure transferred to Profit & Loss a/c	13,400

W21 Investment Income

	€
Income receivable for 7 months	
[3% of €150,000 × 7/12]	•2,625 (2)
Figure transferred to Profit & Loss a/c	2,625

W22 Investment Income due

	€
Investment Income receivable	••2,625 (1)
– Investment Income incorporated in Patents [3% of €150,000 × 4/12]	(1,500)(1)
Figure transferred to Balance Sheet	1,125

W23 Debenture Interest

		€
Debenture Interest charge for the year		
[6% of €200,000]	(full year)	12,000 (1)
[6% of €80,000 × 9/12]	(9 months)	3,600 (1)
Figure transferred to Profit & Loss a/c		15,600

W24 Debenture Interest due

		€
Debenture Interest payable for the year		••15,600 (1)
Debenture Interest paid	3,600	
– Interest error **W3**	(600)	(3,000)(1)
Figure transferred to Balance Sheet		12,600

W25 Creditors

	€
Figure taken from Trial Balance	87,500 (1)
– Office Equipment payment	(11,600)(1)
– Discount	(1,200)(1)
+ Goods in Transit	18,450 (1)
Figure transferred to Balance Sheet	93,150

W26 VAT

	€
VAT payable to company	15,000 (1)
– VAT payment error [€2,500 × 2] **W3**	(5,000)(1)
– VAT on credit purchases in Transit [€18,450 × 23/123]	(3,450)(1)
Figure transferred to Balance Sheet	6,550

W27 Bank (Overdraft)

	€
Figure taken from Trial Balance	35,000 (1)
– Debtor payment not recorded **W18**	(23,500)(1)
Figure transferred to Balance Sheet	11,500

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.

NOTES:

2. Tabular Statement **(60)**

The financial position of Dill Ltd on 01/01/2018 is shown in the following Balance Sheet:

Balance Sheet as at 01/01/2018				
	Cost	**Dep. to date**	**Net**	**Total**
Intangible Assets	**€**	**€**	**€**	**€**
Goodwill (cost €65,000)				52,000
Tangible Fixed Assets				
Land and Buildings	720,000	43,200	676,800	
Equipment	45,000	5,000	40,000	
Delivery Vans	75,000	15,000	60,000	
	840,000	63,200	776,800	776,800
Current Assets				
Stock		60,600		
Debtors (less provision 5%)		71,250		
Insurance prepaid		900		
Bank		13,800	146,550	
Less Creditors: amounts falling due within 1 year				
Creditors		42,000		
VAT		9,500		
Expenses due		12,200	(63,700)	
Net Current Assets				82,850
				911,650
Financed by				
Capital and Reserves				
Authorised – 900,000 Ordinary Shares @ €1 each				
Issued – 750,000 Ordinary Shares @ €1 each			750,000	
Share Premium			25,000	
Profit and Loss balance			136,650	911,650
				911,650

The following transactions took place during 2018:

Jan. Dill Ltd decided to re-value land and buildings on 01/01/2018 at €900,000. The land element of the new value is €120,000.

Feb. Dill Ltd bought an adjoining business on 01/02/2018 which included buildings €150,000, delivery vans €30,000, debtors €11,000 and creditors €31,000. The purchase price was discharged by granting the seller 150,000 shares in Dill Ltd at a premium of 15c per share.

Apr. Received a bank statement at the end of April showing a standing order of €3,720 to cover insurance for the year ended 31/03/2019 and a direct debit of €5,400 to cover security costs for the year ended 30/06/2018.

June Goods to the value of €7,380 were sold on credit. This figure includes VAT at 23% and a mark-up on cost of 20%.

July A payment from a liquidator on behalf of a debtor was received directly into the bank. This represented a first and final payment of 25c in the €1 in respect of a debt of €8,000.

Sept. Goods previously bought for €3,690 by Dill Ltd were returned. This figure included VAT at 23%. Dill Ltd received a credit note for €3,390 only due to a delay in returning these goods.

Dec. The depreciation charge on buildings for the year is 2% of book value. The depreciation charge is to be calculated from the date of valuation and the date of purchase.

2. Tabular Statement (cont'd.)

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2018. (60)

	01/01/2018	Jan.	Feb.	Apr.	June	July	Sept.	Dec.	Dec.	31/12/2018
	€	€	€	€	€	€	€	€	€	€
		W1	W2	W3	W4	W5	W6	W7	W8, 9	
Goodwill	52,000		12,500 (3)							64,500
Land and Buildings	720,000	•180,000 (2)	150,000 (1)							1,050,000
Depreciation: Buildings	(43,200)	43,200 (2)						(18,350)(2)		(18,350)
Equipment	45,000									45,000
Depreciation: Equipment	(5,000)									(5,000)
Delivery Vans	75,000		30,000 (1)							105,000
Depreciation: Delivery Vans	(15,000)									(15,000)
Stock	60,600				•(5,000)(2)		•(3,000)(2)			52,600
Debtors	75,000		11,000 (1)		7,380 (2)	(8,000)(2)				85,380
Provision for Bad Debts	(3,750)									(3,750)
Insurance prepaid	900			3,720 (2)					(3,690)(2)	••930 (1)
Bank	13,800			(9,120)(2)		••2,000 (2)				••6,680 (1)
Total Assets	975,350	223,200	203,500	(5,400)	2,380	(6,000)	(3,000)	(18,350)	(3,690)	1,367,990

	01/01/2018	Jan.	Feb.	Apr.	June	July	Sept.	Dec.	Dec.	31/12/2018
	€	€	€	€	€	€	€	€	€	€
Creditors	42,000		31,000 (1)				(3,390)(2)			69,610
VAT	9,500				••1,380 (2)		••690 (2)			••11,570 (1)
Expenses due	12,200			(5,400)(2)					2,700 (2)	••9,500 (1)
Ordinary Share Capital	750,000		150,000 (1)							900,000
Share Premium	25,000		••22,500 (1)							47,500
Profit and Loss balance	136,650				••1,000 (2)	••(6,000)(2)	••(300)(2)	••(18,350)(2)	(3,690)(2)	
									(2,700)(2)	••106,610 (1)
Revaluation Res.		••223,200 (2)								223,200
Total Liabilities	975,350	223,200	203,500	(5,400)	2,380	(6,000)	(3,000)	(18,350)	(3,690)	1,367,990

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

2. Tabular Statement (cont'd.)

Workings:

W1

	€
Revaluation on Land & Buildings	
Revised valuation	900,000 (1)
– Old valuation (01/01/2018)	(720,000)(1)
Net increase in Land & Buildings (Jan.)	•180,000
Accumulated Depreciation (Land & Buildings)	
Revaluation Reserve	•••43,200 (2)
Revaluation Reserve	
Increase valuation in Land & Buildings	••180,000 (1)
+ Accum. Deprec. (Land & Buildings)	••43,200 (1)
Net increase in Revaluation Reserve (Jan.)	223,200

W2

		€
Goodwill		
Assets		
Buildings	150,000	
Delivery Vans	30,000	
Debtors	11,000	191,000 (1)
Liabilities		
Creditors		(31,000)(1)
Net Worth of new business		160,000
Purchase Price		
Ordinary Shares [150,000 @ €1 each]		150,000
Premium [15% of €150,000]		22,500
		172,500 (1)
– Net Worth of new business		160,000
Net increase in Goodwill (Feb.)		12,500
Net increase in Land & Buildings (Feb.)		•••150,000 (1)
Net increase in Delivery Vans (Feb.)		•••30,000 (1)
Net increase in Debtors (Feb.)		•••11,000 (1)
Net increase in Creditors (Feb.)		•••31,000 (1)
Net increase in Share Capital (Feb.)		•••150,000 (1)
Net increase in Share Premium (Feb.)		••22,500 (1)

W3

	€
Insurance prepaid	
Net increase in Insurance prepaid (Apr.)	•••3,720 (2)
Expenses due	
Net increase in Expenses due (Apr.)	•••5,400 (2)
Bank	
Insurance (payment)	3,720 (1)
Security Costs (payment)	5,400 (1)
Net decrease in Bank (Apr.)	9,120

** Treat all Insurance paid as "Insurance prepaid" and all Security Costs paid as "Expenses due" until December.

W4

	€
Stock	
Credit Sales (including VAT)	7,380
– VAT on Sales [€7,380 ÷ 123 × 23]	(1,380)(1)
Credit Sales (excluding VAT)	6,000
– Mark-up [€6,000 ÷ 120 × 20]	••(1,000)(1)
Net decrease in Stock (June)	5,000
Debtors	
Net decrease in Debtors (June)	•••7,380 (2)
VAT	
Net increase in VAT (June)	••1,380 (2)
Profit on Sales [€6,000 – €5,000]	••1,000 (2)
Net increase in Profit and Loss (June)	1,000

W5

	€
Bad Debt	
Net decrease in Debtors (July)	8,000 (2)
Payment from liquidator [€8,000 × 25/100]	•2,000 (2)
Net increase in Bank (July)	2,000
Bad Debt	8,000 (1)
– Payment from liquidator	••(2,000)(1)
Net decrease in Profit and Loss (July)	6,000

W6

	€
Stock	
Credit Purchases (including VAT)	3,690
– VAT on Purchases [€3,690 ÷ 123 × 23]	•(690)(2)
Net decrease in Stock (Sept.)	3,000
VAT	
Net increase in VAT (Sept.)	••690 (2)
Creditors	
Net decrease in Creditors (Sept.)	•••3,390 (2)
Restocking Charge [€3,690 – €3,390]	•••300 (2)
Net decrease in Profit and Loss (Sept.)	300

W7

	€
Depreciation: Buildings	
Depreciation charge for the year	
[2% of (€900,000 – €120,000)] × 12/12	15,600 (1)
[2% of €150,000 ×11/12]	2,750 (1)
Net increase in Depreciation (Dec.)	18,350
Depreciation charge for the year	••18,350 (2)
Net decrease in Profit and Loss (Dec.)	18,350

W8

	€
Insurance charge for the year	
Insurance prepaid 01/01/2018	900 (1)
Insurance for the year [€3,720 × 9/12]	•2,790 (1)
Net increase in Insurance prepaid (Dec.)	3,690
Insurance charge for the year	
Net decrease in Profit and Loss (Dec.)	••3,690 (2)

** Insurance prepaid 31/12/2018 [€3,720 × 3/12 = €930]

W9

	€
Security costs for the year	
Payment for the year [€5,400 × 6/12]	•2,700 (2)
Net decrease in Expenses due (Dec.)	2,700
Expenses for the year	••2,700 (2)
Net decrease in Profit and Loss (Dec.)	2,700

** Additional €2,700 paid was for Security costs incurred during 2017.

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

NOTES:

3. Correction of Errors and Suspense Account (60)

The Trial Balance of B. Rigby, a garage owner, failed to agree on 31/12/2018. The difference was entered in a Suspense Account and the final accounts were prepared, which showed a Net Profit of €121,000.

On checking the books, the following errors and omissions were discovered:

(i) Rigby's private car valued at €8,500 was presented to the business. This car was later sold on credit to a debtor of the business for €9,300. The sale had been treated as a cash sale. This was the only entry in the books in respect of this transaction.

(ii) Vehicles purchased on credit for €34,000 had been entered on the incorrect side of the creditor's account and debited as €4,300 to the machinery account.

(iii) An overdraft of €550 in the bank account had been brought down on the incorrect side of the nominal ledger and consequently had been entered on the incorrect side of the Trial Balance.

(iv) A debtor, who owed Rigby €2,600, sent a cheque for €2,500 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 20c in the €1.

(v) Advertising prepaid €650 and rent due to Rigby €700 were not recorded in the books.

(a) Journalise the necessary corrections. (40)

General Journal of B. Rigby

		Dr €	Cr €	
(i)	Purchases a/c	8,500 (2)		Capital introduced
	Capital a/c		8,500 (1)	
	Debtors a/c	9,300 (2)		Error corrected
	Bank / Cash a/c		9,300 (2)	
	** Being recording of a private motor car introduced as capital omitted and a credit sale incorrectly treated as a cash sale. (1)			
(ii)	Machinery a/c		4,300 (2)	Error corrected
	Suspense a/c	4,300 (1)		
	Creditors a/c		34,000 (1)	Error corrected
	Suspense a/c	34,000 (1)		
	Purchases a/c	34,000 (2)		Entered correctly
	Creditors a/c		34,000 (1)	
	or			
	Machinery a/c		4,300 (2)	
	Creditors a/c		68,000 (2)	
	Purchases a/c	34,000 (2)		
	Suspense a/c	38,300 (2)		
	** Being correction of incorrect recording/treatment of a credit purchase. (1)			
(iii)	Bank a/c		1,100 (2)	Entered correctly
	Suspense a/c	1,100 (2)		
	** Being correction of bank overdraft brought down on the incorrect side of the bank account. (1)			

** Accept student's own wording if equivalent meaning conveyed.

3. Correction of Errors and Suspense Account (cont'd.)

(a) (cont'd.)

General Journal of B. Rigby

	Dr €	Cr €	
(iv) Debtors a/c	2,600 (1)		Debtors' balance increased
Bank a/c		2,500 (2)	Cheque dishonoured
Discount Allowed a/c (disallowed)		100 (2)	Discount disallowed
Bank a/c	520 (2)		Payment received
Bad Debts a/c	2,080 (2)		Balance of debt written off
Debtors a/c		2,600 (1)	Debtors' balance reduced
or			
Bank a/c		2,500 (2)	
Discount Disallowed a/c		100 (2)	
Bank a/c	520 (3)		
Bad Debts a/c	2,080 (3)		
** Being recording of a dishonoured cheque received from debtor and the payment of 20c in the euro as a first and final payment of a debt. (1)			
(v) Profit and Loss / Advertising a/c		650 (1)	Expense paid in 2018
Advertising prepaid a/c (Balance Sheet)	650 (2)		Expense prepaid 31/12/2018
Profit and Loss / Rent Receivable a/c		700 (1)	Income earned in 2018
Rent a/c / Rent Receivable due (Balance Sheet)	700 (2)		Income due 31/12/2018
or			
Profit and Loss a/c		1,350 (2)	
Advertising a/c / Advertising prepaid (Balance Sheet)	650 (2)		
Rent a/c / Rent Receivable due (Balance Sheet)	700 (2)		
** Being recording of advertising prepaid and rent receivable due omitted from the books. (1)			

** Accept student's own wording if equivalent meaning conveyed.

(b) Prepare a statement showing the correct Net Profit. (14)

Statement of Corrected Net Profit

		€	€
Original Net Profit as per books			121,000
Add Discount Disallowed	(iv)		•100 (2)
Advertising prepaid	(v)		•650 (2)
Rent Receivable due	(v)		•700 (2)
			122,450
Less Purchases	(i)	•8,500 (2)	
Purchases	(ii)	•34,000 (2)	
Bad Debts	(iv)	•2,080 (2)	(44,580)
Corrected Net Profit			••77,870 (2)

• Allow 1 mark for each incorrect entry if consistent with journal entries in part (a).
•• Accept correct figure only.

3. Correction of Errors and Suspense Account (cont'd.)

(c) (i) What is the purpose of preparing a Trial Balance? **(3)** (3)

- in order to test the accuracy of double entry book-keeping before preparing final accounts (1)
- it should have the same total of debits and credits (1) because under double entry book-keeping, every debit entry should have a corresponding credit entry (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(ii) Identify **three** types of errors that may affect the balancing of a Trial Balance. **(3 × 1)** (3)

- entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account
- mathematical errors - figures and additions
- posting only one side of the double entry

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

NOTES:

4. Debtors Control Account **(60)**

The Debtors' Ledger Control Account of C. Comerford showed the following balances: €23,600 dr and €840 cr on 31/12/2018. These figures did not agree with the Schedule (List) of Debtors' Balances extracted on the same date. An examination of the books revealed the following:

(i) Bills receivable of €355 was entered on the incorrect side of a customer's account.

(ii) €1,650 was received from a debtor for a debt previously written off. This represents 60% of the original bad debt. The debtor has undertaken to pay the remainder of the debt and now wishes to trade again with Comerford. No entries were made in the accounts.

(iii) Sales of €3,250 had been entered on the credit side of a customer's account. This included cash sales of €1,350.

(iv) Interest amounting to €230, charged to a customer's overdue account, had been correctly entered in the customer's account and entered as €320 in the interest account. Following a complaint by the customer the charge was reduced to €210. This reduction had not been entered in the books.

(v) A credit note was sent to a customer for €130. The only entry made in the books was €30 debited to the customer's account. However, the accounts clerk forgot to deduct a restocking charge of 10% of the sales price. No entry was made in the books in respect of this restocking charge.

(vi) A contra entry of €265 had been entered on the incorrect side of a customer's account. When making the entry in the control account the item was entered as €256 on the incorrect side.

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

Adjusted Debtors' Ledger Control Account

Date	Details		€	Date	Details		€
	Balance b/d		●●23,600 (1)		Balance b/d		●●840 (1)
	Bad Debt Recoverable (1)■	(ii)	1,100 (4)		Interest (1)■ [€320 – €210]	(iv)	110 (4)
					Credit Note (1)■ [€130 – €13]	(v)	117 (4)
					Contra (1)■ [€256 + €265]	(vi)	521 (4)
	Balance c/d		840 (1)		Balance c/d		●●23,952 (1)
			25,540				25,540
	Balance b/d		23,952		Balance b/d		840

●● Accept correct figure only.

■ Allow 1 mark for correct word(s) <u>even</u> if figure is incorrect <u>or</u> omitted.

4. Debtors Control Account (cont'd.)

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

Adjusted Schedule of Debtors

			€	€
Balance as per list of Debtors [€24,519 – €6,250]				••18,269 (3)
Add	Bad Debt recoverable (1)■	(ii)	1,100 (3)	
	Sales [(€3,250 × 2) – €1,350] (1)■	(iii)	5,150 (3)	6,250
				24,519
Less	Bills Receivable [€355 + €355] (1)■	(i)	710 (3)	
	Interest [€230 – €210] (1)■	(iv)	20 (3)	
	Credit Note Adjustment [€30 + €117] (1)■	(v)	147 (3)	
	Contra [€265 + €265] (1)■	(vi)	530 (3)	(1,407)
Net balance as per adjusted Control Account				•23,112 (1)

• Allow full marks for student's own figure, but must be '–840'.
•• Accept correct figure only.

■ Allow 1 mark for correct word(s) <u>even</u> if figure is incorrect <u>or</u> omitted.

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

Any 2: **(2 × 2)**

- to act as a check on the accuracy of ledgers / figures related to creditors / debtors (1) by comparing the balance in the control account with the total as per the schedule (1) //
- to locate errors quickly (1) and to narrow searching for errors to confined areas (1) //
- useful when a firm needs to find credit sales or credit purchases (1) from incomplete records (1) //
- to allow amounts owed by debtors and amounts owed to creditors (1) to be ascertained quickly by simply balancing the control account (1) // *etc.*

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(ii) Which books of first entry are used in the production of Debtors Control Accounts? **(4 × 1)** (4)

- sales book / sales day book
- sales returns book / sales returns day book / returns inwards book
- general journal
- cash book / receipts and payments book

5. Interpretation of Accounts (100)

The following figures have been taken from the final accounts of Plummer plc, a company in the construction sector, for the year ended 31/12/2018. The company has an Authorised Capital of €2,000,000 made up of 1,200,000 Ordinary Shares at €1 each and 700,000 5% Preference Shares at €1 each. The firm has already issued 850,000 Ordinary Shares and 500,000 of the Preference Shares.

Trading and Profit and Loss Account for the year ended 31/12/2018		
	€	**€**
Sales		1,900,000
Opening Stock	82,500	
Closing Stock	97,500	
Cost of goods sold		(1,450,000
Operating expenses for year		(219,000)
Interest for year		(16,000)
Net Profit for year		215,000
Dividends paid		(110,000)
Retained Profit		105,000
Profit and Loss balance 01/01/2018		120,000
Profit and Loss balance 31/12/2018		225,000

Projected ratios and information for the year ended 31/12/2019	
Earnings per Ordinary Share	25c
Dividend per Ordinary Share	11·5c
Interest Cover	15 times
Quick Ratio	1·6:1
Price Earnings Ratio	5:1
Return on Capital Employed	14%
Gearing	45%

Balance Sheet as at 31/12/2018	**€**	**€**	**€**
Fixed Assets			
Intangible Assets			310,000
Tangible Assets			1,090,000
Investments (market value 31/12/2018 – €125,000)			200,000
			1,600,000
Current Assets (including Debtors €82,000)		329,500	
Less Creditors: amounts falling due within 1 year			
Trade Creditors	127,600		
Bank Overdraft	26,900	(154,500)	175,000
			1,775,000
Financed by			
8% Debentures (2020 secured)			200,000
Capital and Reserves			
Ordinary Shares @ €1 each		850,000	
5% Preference Shares @ €1 each		500,000	
Profit and Loss balance		225,000	1,575,000
			1,775,000

Market value of one ordinary share on **31/12/2018** is **€1·15**.

5. Interpretation of Accounts (cont'd.)

(a) **You are required to calculate the following for 2018** (where appropriate calculations should be made to **two** decimal places):

(i) Cash Sales if the average period of credit given to debtors is 1·5 months. (12)

Average period of credit given to debtors

$$= \frac{\text{Debtors}}{\text{Credit Sales}} \times \frac{12}{1} = 1{\cdot}5$$

⇒ Credit Sales

$$= \frac{\text{Debtors} \times 12}{1{\cdot}5} = \frac{82{,}000\ \mathbf{(2)} \times 12\ \mathbf{(2)}}{1{\cdot}5\ \mathbf{(2)}}$$

= ●●€656,000 **(1)**

⇒ Cash Sales

= Total Sales – Credit Sales = 1,900,000 **(2)** – ●●●656,000 **(1)**

= ●●●€1,244,000 **(2)**

(ii) Return on Equity Funds. (10)

Equity Funds

= Issued Ordinary Share Capital + Reserves

⇒ Return on Equity Funds

$$= \frac{\text{Net Profit after Tax} - \text{Preference Dividend}}{\text{Equity Funds}} = \frac{215{,}000\ \mathbf{(2)} - 25{,}000\ \mathbf{(2)}}{850{,}000\ \mathbf{(2)} + 225{,}000\ \mathbf{(2)}} \times \frac{100}{1}$$

$$= \frac{190{,}000}{1{,}075{,}000} \times \frac{100}{1}$$

= 17·674418...

= ●●17·67% **(2)**

(iii) Earnings per Ordinary Share. (8)

$$= \frac{\text{Net Profit after Tax} - \text{Preference Dividend}}{\text{Number of Ordinary Shares Issued}} = \frac{215{,}000\ \mathbf{(2)} - {}^{\bullet}25{,}000\ \mathbf{(2)}}{850{,}000\ \mathbf{(2)}} \times \frac{100}{1}$$

$$= \frac{190{,}000}{850{,}000} \times \frac{100}{1}$$

= 22·352941...

= ●●22·35 cent per share **(2)**

● Allow 1 mark for student's own figure.
●● Award full marks for correct answer even if no workings are shown.
●●● Allow full marks for student's own figure if consistent with previous work.

** Penalise 1 mark if answers not given to two decimal places where appropriate.
** Penalise 1 mark if appropriate units (times, %, years, *etc.*) omitted from final answers.
** No deduction if '€' symbol omitted.
** Allow 3 marks for correct formula if no other work shown.

5. Interpretation of Accounts (cont'd.)

(a) (cont'd.)

(iv) Dividend Yield. (12)

Dividend per Share

$$= \frac{\text{Total Ordinary Dividends}}{\text{Number of Ordinary Shares Issued}} = \frac{110{,}000\ \mathbf{(2)} - 25{,}000\ \mathbf{(2)}}{850{,}000\ \mathbf{(2)}} \times \frac{100}{1}$$

$$= \frac{85{,}000}{850{,}000} \times \frac{100}{1}$$

$= ●●10 cent **(1)**

⇒ Dividend Yield

$$= \frac{\text{Dividend per Share}}{\text{Market Price per Share}} \times \frac{100}{1} = \frac{●●●10\ \mathbf{(1)}}{115\ \mathbf{(2)}} \times \frac{100}{1}$$

= 8·695652...

= ●●●8·70% **(2)**

(v) Projected market value of one share in **2019**. (8)

= Price Earnings Ratio × Earnings per Ordinary Share

= 5 **(3)** × 25 **(3)**

= ●●125 cent / €1·25 **(2)**

●● Award full marks for correct answer <u>even</u> if no workings are shown.
●●● Allow full marks for student's own figure if consistent with previous work.

** Penalise 1 mark if answers not given to two decimal places where appropriate.
** Penalise 1 mark if appropriate units (times, %, years, *etc.*) omitted from final answers.
** No deduction if '€' symbol <u>or</u> 'cent' omitted.
** Allow 3 marks for correct formula if no other work shown.

5. Interpretation of Accounts (cont'd.)

(b) Plummer plc intends to raise further finance by issuing the remaining Ordinary Shares.

Would you as a shareholder be prepared to purchase more shares in the company?
Use relevant ratios, percentages and other information to support your answer. (40)

– before deciding whether to purchase more shares, I would consider the following:

❶ Performance

(i) Profitability (7)

– in 2018, Return on Capital Employed / ROCE was •13·01% $\left[\frac{215{,}000 + 16{,}000}{1{,}775{,}000} \times \frac{100}{1}\right]$ (1)
– ratio shows that Plummer plc is a very profitable company (1)
– in 2019, it is expected to rise to 14%, which is better (1)
– company profitability is expected to improve on the previous year, which will represent a more efficient use of resources in 2019 (1) - this indicates a healthy trend that will satisfy ordinary shareholders (1)
– the return of ••13·01% in 2018 is significantly above the return from risk-free investments of 1-2% (1)
– the return of ••13·01% in 2018 is also well above the 8% being paid on debentures / the rate being paid on debentures, which are secure (1)

(ii) Dividend Policy (7)

– in 2018, Dividend per Ordinary Share was is ••10c (1)
– in 2019, the dividend is projected to rise to 11·5c, which is better (1) - ordinary shareholders will be satisfied with this trend
– Dividend Yield is expected to rise from ••8·70% in 2018 to •9·20% $\left[\frac{11{\cdot}5}{125} \times \frac{100}{1}\right]$ in 2019 (1)
– ordinary shareholders will be satisfied with this trend as they are receiving a good return for taking a risk - in both years - Dividend Yields are significantly above the return from risk-free investments of 1-2% (1)
– Dividend Cover is not expected to change significantly from •2·24 times $\left[\frac{215{,}000 - 25{,}000}{110{,}000 - 25{,}000} \,/\, \frac{23{\cdot}75}{10{\cdot}625}\right]$ in 2018 to •2·17 times $\left[\frac{25}{11{\cdot}5}\right]$ in 2019 (1)
– percentage of profits to be paid out in 2019 is expected to be ••46·08% $\left[\frac{1}{2{\cdot}17} \times \frac{100}{1}\right]$, which is slightly more than the ••44·74% $\left[\frac{110{,}000 - 25{,}000}{215{,}000 - 25{,}000} \times \frac{100}{1}\right]$ or ••44·64% $\left[\frac{1}{2{\cdot}24} \times \frac{100}{1}\right]$ that was paid out in 2018 (1)
– ordinary shareholders will be satisfied that adequate profits / earnings are being retained by the company for the growth and development of the company and the repayment of loans and debentures while at the same time adequate profits / earnings are being paid out to shareholders in dividends (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
•• Allow full marks for student's own figure if consistent with previous work.

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.
** For the purposes of presentation and clarity, headings and bullets are shown in this marking scheme but are not necessary in a student's answer.

5. Interpretation of Accounts (cont'd.)

(b) (cont'd.)

❷ State of Affairs

(iii) Liquidity (6)

– in 2018, the Quick Ratio / Acid Test Ratio is •1·5:1 $\left[\frac{329{,}500 - 97{,}500}{154{,}500}\right]$ (1)
– the company has €1·50 / 150c available to pay every €1 owed in the short term (1)
– the company has good liquidity and should have no difficulties in paying its short-term debts as they fall due for payment (1)
– in 2019, the Quick Ratio / Acid Test Ratio is expected to improve to 1·6:1 (1)
– in both years, the ratio is well above the ideal of 1:1 (1)
– ordinary shareholders will be pleased with this as it shows the company's ability to pay dividends and interest as well as retaining funds available for investment (1)

(iv) Gearing (6)

– in 2018, the Gearing Ratio is •39·44% $\left[\frac{200{,}000 + 500{,}000}{1{,}775{,}000} \times \frac{100}{1}\right]$ (1)
– ratio indicates that the company currently has low gearing (1)
– this will please ordinary shareholders as it shows the company's ability to pay dividends and that the company is not dependent on outside borrowings / not at risk from outside investors (1)
– however, gearing is expected to be less favourable, rising from ••39·44% in 2018 to ••45% in 2019 - the company will be slightly more dependent on outside borrowings (1)
– Interest Cover is expected to improve from ••14·44 times in 2018 to 15 times in 2019 (1)
– ordinary shareholders will be satisfied as the company has no problem in paying interest charges and dividends in 2018 and this is expected to remain the same in 2019 (1)

(v) Investment Policy (4)

– investments made by the company costing €200,000 now have a market value of €125,000, which represents a decrease in value of €75,000 / 37·5% (1)
– this will not satisfy shareholders as it shows poor management of resources (1)
– debentures are due to be repaid in 2020 and the company will require further borrowing or sale of fixed assets as these investments will only partially repay these debentures (1)
– shareholders may not be fully satisfied that sufficient resources are in place to repay debentures in 2020 and this may affect the payment of future dividends (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
•• Allow full marks for student's own figure if consistent with previous work.

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.
** For the purposes of presentation and clarity, headings and bullets are shown in this marking scheme but are not necessary in a student's answer.

5. Interpretation of Accounts (cont'd.)

(b) (cont'd.)

❸ Prospects

(vi) Market Price of Share **(4)**

- at the end of 2018, the market price of one share was €1·15 (1)
- at the end of 2019, the projected value of one share is ••€1·25, which represents an increase of 10c / 8·7% (1)
- this will please shareholders as it indicates market confidence in the company (1)
- based on current earnings, it should only take •5·15 years $\left[\dfrac{115}{22{\cdot}35}\right]$ based on the figures in 2018 and •5 years $\left[\dfrac{125}{25}\right]$ based on the figures in 2019 to recover its value - both are extremely short (1)

(vii) Sector **(4)**

- the company operates in the construction sector (1)
- there is at present an upsurge in construction activity in the Irish market as the economy recovers / continued economic growth (1)
- however, prospects are more uncertain in the medium and long term as:
  Any 2: (2 × 1)
  - property developers and house buyers find it more difficult to access finance and this has a knock-on effect for companies in the construction industry //
  - the closure of some larger construction firms, *e.g.* Carillion, can have an adverse effect on smaller contractors in the sector //
  - however, increasing population will push up demand for more housing and this will have a positive effect for companies in the construction sector //
  - increased development of office space in Dublin and other towns and cities due to economic growth / increased uncertainty about 'Brexit' // *etc*.

❹ Conclusion **(2)**

- overall, ordinary shareholders should be happy with the performance of the company (1) and I would buy more shares in the company (1)

• Penalise once for incorrect ratio figure but accept thereafter if used consistently.
•• Allow full marks for student's own figure if consistent with previous work.

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.
** For the purposes of presentation and clarity, headings and bullets are shown in this marking scheme but are not necessary in a student's answer.

5. Interpretation of Accounts (cont'd.)

(c) (i) Explain the term 'Gearing'. **(5)** (5)

- a measure of how a business is financed on a long-term basis / refers to the capital structure of a business (1)
- measures the relationship between fixed interest debt (loans / debentures + preference shares) and total capital employed / total equity (2) //
- when the ratio is less than 50% / 100%, the business is lowly geared - the company is not dependent on outside borrowing and is not at risk from outside investors (1) - which is preferable //
- when the ratio is above 50% / 100%, the business is highly geared - the company is dependent on outside borrowing and is at risk from outside investors (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(ii) What are the implications for a business of being highly geared? (3)

Any 3: **(3 × 1)**

- high interest repayments mean less profits are available for investment elsewhere in the business //
- shareholders are less likely to receive a dividend when the gearing is high //
- the business should find it more difficult to raise additional loan finance //
- the business has less financial stability as it is more affected by rises in interest rates //
- greater risk of liquidation due to not being able to make interest payments // *etc*.

** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate answers.

(iii) State **two** ways in which a company can reduce its gearing. (2)

Any 2: **(2 × 1)**

- sell more ordinary shares //
- reduce or repay loans //
- increase reserves / retained profits //
- convert long-term debt to ordinary shares // *etc*.

** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate answers.

NOTES:

6. Cash Flow Statement **(100)**

The following are the Balance Sheets of Craft plc as at 31/12/2017 and 31/12/2018.

Balance Sheet as at	**31/12/2018**		**31/12/2017**	
Fixed Assets	**€**	**€**	**€**	**€**
Cost	725,000		550,000	
Less accumulated depreciation	(170,000)	555,000	(90,000)	460,000
Financial Assets				
Quoted Investments at cost		100,000		150,000
Current Assets				
Stock	360,000		305,000	
Debtors	180,000		120,000	
Less Provision for Bad Debts	(9,000)		(6,000)	
Government Securities	46,000		25,000	
Cash	12,000		18,500	
Investment Income due	1,000		—	
	590,000		462,500	
Less Creditors: amounts falling due within 1 year				
Trade Creditors	185,000		222,000	
Bank	31,000		45,000	
Taxation	60,000		65,000	
Interest due	16,000		12,000	
	(292,000)		(344,000)	
Net Current Assets		298,000		118,500
		953,000		728,500
Financed by				
Creditors: amounts falling due after more than 1 year				
8% Debentures		200,000		150,000
Capital and Reserves				
Ordinary Shares @ €1 each	500,000		400,000	
Share Premium	20,000		—	
Profit and Loss account	233,000	753,000	178,500	578,500
		953,000		728,500

The following information is also available for the year 2018:

1. Fixed assets, which cost €60,000 and on which total depreciation of €26,000 had been provided, were sold for €41,000.
2. The quoted investments yield a fixed return of 4% per annum.
3. Investments which cost €50,000 were sold for cash at their book value on 30/06/2018.
4. Taxation charge on profits for the year 2018 was €75,000.
5. €50,000 Debentures were issued on 01/04/2018.
6. 100,000 shares were issued at €1·20 per share.
7. Dividends paid during the year amounted to €60,000.

6. Cash Flow Statement (cont'd.)

(a) (i) Prepare an Abridged Profit and Loss Account to ascertain the operating profit for the year ending 31/12/2018.

(ii) Prepare the Cash Flow Statement of Craft plc for the year ending 31/12/2018, including Reconciliation Statements.

Abridged Profit and Loss Account for the year ended 31/12/2018 (18)

		€
Operating Profit		●●199,500 (2)
Investment Income (1)■	W1	5,000 (2)
Interest for the year (1)■	W2	(15,000)(2)
Profit before Taxation		189,500
Taxation (1)■		(75,000)(2)
Profit after Taxation		114,500
Dividends (1)■		(60,000)(2)
Retained profits for the year		54,500
Profit and Loss balance 01/01/2018 (1)■		178,500 (1)
Profit and Loss balance 31/12/2018 (1)■		233,000 (1)

●● Accept correct figure only.
■ Allow 1 mark for correct word(s) even if figure is incorrect or omitted.

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities (20)

		€
Operating Profit		●199,500 (1)
Depreciation charge for the year (1)■	W3	106,000 (2)
Profit on disposal of Fixed Assets (1)■	W4	(7,000)(2)
Increase in Provision for Bad Debts (1)■	W5	3,000 (2)
Increase in Stock (1)■		(55,000)(2)
Increase in Debtors (1)■		(60,000)(2)
Decrease in Creditors (1)■		(37,000)(2)
Net Cash Inflow from Operating Activities		●●149,500 (1)

● Allow full marks for student's own figure if consistent with previous work.
●● Accept correct figure only.
■ Allow 1 mark for correct word(s) even if figure is incorrect or omitted.

Workings:

W1 Investment Income

	€
[4% of €150,000 × 6/12]	3,000 (1)
[4% of €100,000 × 6/12]	2,000 (1)
Figure transferred to abridged P & L a/c	5,000
Investment Income payable	●5,000 (2)
– Investment Income due 31/12/2018	(1,000)(2)
Rec'd. to date (Cash Flow Statement)	4,000

W2 Debenture Interest

	€
[8% of €150,000 × 12/12]	12,000 (1)
[8% of €50,000 × 9/12]	3,000 (1)
Figure transferred to abridged P & L a/c	15,000
Debenture Interest due 01/01/2018	12,000 (2)
+ Debenture Interest payable	●15,000 (1)
– Debenture Interest due 31/12/2018	(16,000)(1)
Paid to date (Cash Flow Statement)	11,000

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

W3 Depreciation charge for the year

	€
Accum. depreciation 01/01/2018	90,000
– Depreciation on disposed assets	(26,000)
Accum. deprec. on remaining assets	64,000
Accum. depreciation 31/12/2018	170,000 (1)
– Accum. deprec. on remaining assets	●(64,000)(1)
Depreciation charge for the year	106,000

W4 Sale of Fixed Assets

	€
Cost of disposed assets	60,000
– Accum. depreciation on assets	(26,000)(1)
Book value of disposed assets	34,000
– Receipts from sale of assets	(41,000)(1)
Profit on disposal of Fixed Assets	7,000

W5 Provision for Bad Debts

	€
New Provision 31/12/2018	9,000 (1)
– Old Provision 01/01/2018	(6,000)(1)
Increase in Provision for Bad Debts	3,000

6. Cash Flow Statement (cont'd.)

(a) (cont'd.)

Cash Flow Statement (of Craft plc)
for the year ended 31/12/2018 (45)

		€	€
Operating Activities			
Net Cash Inflow from Operating Activities			•149,500 (2)
Return on Investments and Servicing of Finance (1)			
Investment Income received	W1	4,000 (4)	
Interest on debentures paid	W2	(11,000)(4)	(7,000)
Taxation (1)			
Taxation paid	W6		(80,000)(4)
Capital Expenditure and Financial Investment (1)			
Receipts from the sale of fixed assets		41,000 (3)	
Payments to acquire fixed assets	W7	(235,000)(5)	
Receipts from the sale of investments		50,000 (3)	(144,000)
Equity Dividends Paid (1)			
Dividends paid			(60,000)(2)
Net Cash Outflow before Liquid Resources and Financing			(141,500)
Management of Liquid Resources (1)			
Purchase of Government Securities	W8		(21,000)(3)
Financing (1)			
Receipts from the issue of debentures		50,000 (2)	
Receipts from the issue of ordinary shares		100,000 (2)	
Receipts from share premium		20,000 (2)	170,000
Increase in Cash			••7,500 (3)

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

** No penalty for headings out of sequence.
** Penalise 1 mark for each item under the incorrect heading, up to a maximum deduction of –4.

Reconciliation of Net Cash Flow
to Movement in Net Debt (5)

		€
Increase in cash during the period		•7,500 (1)
Cash used to purchase liquid resources		21,000 (1)
Cash received from the issue of debentures		(50,000)(1)
Change in Net Debt		(21,500)
Net Debt at 01/01/2018	W9	(151,500)(1)
Net Debt at 31/12/2018	W10	••(173,000)(1)

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

6. Cash Flow Statement (cont'd.)

(a) (cont'd.)

Workings:

W6 Taxation paid

	€
Taxation due 01/01/2018	65,000 (2)
+ Taxation charge for the year	75,000 (1)
	140,000
– Taxation due 31/12/2018	(60,000)(1)
Paid to date (Cash Flow Statement)	80,000

W7 Purchase of Fixed Assets

	€
Cost of Fixed Assets 01/01/2018	550,000 (1)
– Cost of disposed assets	(60,000)(1)
Cost of remaining assets	490,000
Cost of Fixed Assets 31/12/2018	725,000 (2)
– Cost of remaining assets	•(490,000)(1)
Purchase of additional Fixed Assets	235,000

W8 Government Securities

	€
Value of securities 31/12/2018	46,000 (1)
– Value of securities 01/01/2018	(25,000)(2)
Purchase of additional Securities	21,000

W9 Net Debt 01/01/2018

	€
Debentures	150,000
+ Bank Overdraft	45,000
	195,000
– Cash	(18,500)
– Government Securities	(25,000)
Net Debt 01/01/2018	151,500 (1)

W10 Net Debt 31/12/2018

	€
Debentures	200,000
+ Bank Overdraft	31,000
	231,000
– Cash	(12,000)
– Government Securities	(46,000)
Net Debt 31/12/2018	173,000 (1)

(b) (i) Outline the purposes of Cash Flow Statements. (4)

Any 2: **(2 × 2)**

- to show that profits do not always (1) equal cash (1) //
- to show the cash inflows and outflows (1) during the past year (1) //
- to help financial (1) planning (1) / to help predict future (1) cash flows (1) //
- to provide information to help assess current (1) liquidity / solvency (1) //
- to aid applications (1) for loans and/or grants (1) // *etc*.

* Allow 1m for 'to comply with company legislation'.
** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate answers.

(ii) Outline **two** responsibilities of the directors of a plc. (4)

Any 2: **(2 × 2)**

- to comply with the Companies Acts //
- to keep proper accounting records enabling financial statements to be prepared //
- to prepare annual financial statements //
- to ensure that all financial statements are signed off by two directors //
- to select suitable accounting policies //
- to safeguard the assets of the company //
- to publish Final Accounts and Cash Flow Statement at least once a year //
- to present an Annual Report to shareholders at the AGM to include: (1) Directors' Report, (2) Auditor's Report, (3) Financial Statements // *etc*.

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate answers.

6. Cash Flow Statement (cont'd.)

(b) (cont'd.)

(iii) State **two** items of information that must be included in a Directors' Report. (4)

Any 2: **(2 × 2)**
- recommended dividend for payment //
- amounts to be transferred to reserves //
- a report of any changes in the nature of the company's business during the financial year //
- a fair review of how the business has developed during the year and of its financial position at the end of the year //
- the principal activities of the company and any changes therein //
- particulars of any important event affecting the company which has occurred since the end of the financial year //
- any likely future developments in the business //
- an indication of activities in the field of research and development //
- significant changes in fixed assets //
- details of any dealing in its own shares by the company during the year //
- details of directors' shareholdings and dealings during the year //
- an evaluation of the company's compliance with its safety statement //
- a list of all the company's subsidiaries and affiliates // *etc.*

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate answers.

NOTES:

7. Incomplete Records **(100)**

On 01/01/2018, P. Nunn lodged €875,000 to a business account and on the same day purchased a business for €825,000, consisting of the following tangible assets and liabilities:
Premises €540,000; Equipment €122,000; Stock €45,500; Debtors €53,300; three months' Rates prepaid €3,600; 4% Investments €70,000; Trade Creditors €52,000; Wages due €6,600.

During 2018, Nunn did not keep a full set of accounts but estimates that gross profit was 40% of sales and was able to supply the following information on 31/12/2018.

(i) Nunn took goods from stock to the value of €120 each week and issued a cheque for €280 each month to pay household expenses.

(ii) On 01/09/2018, Nunn borrowed €300,000, part of which was used to purchase an adjoining premises costing €280,000. It was agreed that interest would be paid on the last day of each month at the rate of 6% per annum. The capital sum was to be repaid in 24 equal half-yearly instalments commencing on 01/03/2019.

(iii) During the year, Nunn lodged to the business bank account as follows:
€305,000 receipts from the cash register;
€12,000 EU Grant;
€2,100 Investment Interest;
€4,800 rent for six months ending 28/02/2019.

Nunn also made the following payments by cheque: Light and Heat €18,400; Interest €4,500; Equipment (purchased on 01/10/2018) €12,000; Wages and General Expenses €246,800; Delivery Van (purchased on 01/06/2018) €45,000; Rates for twelve months €15,600; college fees €4,500. The payment for Wages and General Expenses includes €3,100 petrol bill for Nunn's private use.

(iv) Nunn estimated that 30% of the following: light and heat *used* and loan interest *payable* for the year should be attributed to the private section of the premises. Nunn further estimates that 60% of college fees should be attributed to a family member and the remainder to an employee.

(v) Nunn has decided to set up a Provision for Bad Debts amounting to 3% of debtors and to charge depreciation at 20% per annum on the delivery vans and 15% per annum on equipment held on 31/12/2018.

(vi) Included in the assets and liabilities of the firm on 31/12/2018: Stock €53,600 (including stock of heating oil €1,400); Debtors €61,500; Trade Creditors €46,400; Electricity due €900.

7. Incomplete Records (cont'd.)

(a) Prepare, with workings, a Statement/Balance Sheet showing Nunn's profit or loss for the year ended 31/12/2018. (50)

Balance Sheet (of P. Nunn)
as at 31/12/2018

	€ Cost	€ Dep.	€ NBV
Intangible Fixed Assets			
Goodwill W1			•49,200 (3)
Tangible Fixed Assets			
Premises W2	820,000		820,000 (2)
Equipment W3	134,000 (2)	••18,750 (2)	115,250
Delivery Van W4	45,000 (1)	••5,250 (1)	39,750
	999,000	24,000	975,000
Financial Fixed Assets			
4% Investments			70,000 (1)
			1,094,200
Current Assets			
Stock 31/12/2018▪ W5		52,200 (2)	
Stock of heating oil▪		1,400 (1)	
Debtors	61,500 (1)		
Less Provision for Bad Debts W6	(1,845) (2)	59,655	
Rates prepaid W7		3,900 (2)	
Investment Interest due W8		700 (2)	
Bank W9		43,740 (4)	
		161,595	
Less Creditors: amounts falling due within 1 year			
Trade Creditors		46,400 (1)	
Loan Instalments due W10		25,000 (2)	
Loan Interest due W11		1,500 (2)	
Rent Receivable prepaid W12		1,600 (2)	
Electricity due		900 (1)	
		(75,400)	
Net Current Assets			86,195
Total Net Assets			1,180,395
Financed by:			
Creditors: amounts falling due after 1 year			
Loan W10			275,000 (2)
Capital and Reserves			
Capital 01/01/2018		875,000 (2)	
Capital Introduced - EU Grant		12,000 (2)	
Net Profit		•••40,965 (4)	
		927,965	
Less Drawings W15		(22,570) (6)	905,395
Capital Employed			1,180,395

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.
▪ Award full mark (3m) for correct combined figure.

Workings:

		€	€
W1	Goodwill		
	Purchase Price 01/01/2018		825,000
	Assets		
	Premises	540,000	
	Equipment	122,000	
	Stock 01/01/2018	45,500	
	Debtors	53,300	
	Rates prepaid	3,600	
	4% investments	70,000	
		834,400 (1)	
	Less Liabilities		
	Trade Creditors	52,000	
	Wages due	6,600	
		(58,600) (1)	(775,800)
	Figure transferred to Balance Sheet		49,200 (1)
W2	Premises		
	Cost of Premises 01/01/2018		540,000 (1)
	+ Purchases (cost) 01/09/2018		280,000 (1)
	Figure transferred to Balance Sheet		820,000
W3	Equipment		
	Cost of Equipment 01/01/2018		122,000 (1)
	+ Purchases (cost) 01/10/2018		12,000 (1)
	Figure transferred to Balance Sheet		134,000
	Depreciation: Equipment		
	Depreciation charge for year		
	[15% of €122,000]		18,300 (1)
	[15% of €12,000 × 3/12]		450 (1)
	Figure transferred to Balance Sheet		18,750
	Figure transferred to Profit & Loss a/c		••18,750 (2)
W4	Depreciation: Delivery Van		
	Depreciation charge for year		
	[20% of €45,000 × 7/12]		5,250 (1)
	Figure transferred to Balance Sheet		5,250
	Figure transferred to Profit & Loss a/c		••5,250 (2)
W5	Closing Stock		
	Stock 31/12/2018		53,600 (1)
	– Stock of heating oil 31/12/2018		(1,400) (1)
	Figure transferred to Balance Sheet		52,200
	Figure transferred to Profit & Loss a/c		••52,200 (2)
W6	Provision for Bad Debts		
	Proposed Provision for Bad Debts		
	3% of Debtors [3% of €61,500]		1,845 (2)
	Figure transferred to Balance Sheet		1,845
	Figure transferred to Profit & Loss a/c		••1,845 (2)

7. Incomplete Records (cont'd.)

Workings: (cont'd.)

W7

	€
Rates prepaid 31/12/2018	
Prepaid for 3 months [€15,600 × 3/12]	3,900 (2)
Figure transferred to Balance Sheet	3,900
Rates	
Payments during the year	15,600 (1)
+ Rates prepaid 01/01/2018	3,600 (1)
	19,200
– Rates prepaid 31/12/2018	(3,900)(2)
Figure transferred to Profit & Loss a/c	15,300

W8

	€
Investment Interest	
Interest receivable [4% of €70,000]	•2,800 (2)
Figure transferred to Profit & Loss a/c	2,800
Investment Interest due 31/12/2018	
Interest receivable	••2,800 (1)
– Interest received	(2,100)(1)
Figure transferred to Balance Sheet	700

W9

Bank

		€	
Lodgements			
Lodgements		875,000	
Loan		300,000	
Cash Lodgements		305,000	(1)
EU Grant		12,000	
Investment Interest		2,100	
Rent		4,800	
		1,498,900	
Payments			
Business	825,000		
Drawings [€280 × 12]	3,360		
Premises	280,000		
Light and Heat	18,400		
Interest	4,500 (1)		
Equipment	12,000		
Wages & Gen. Expenses	246,800		
Delivery Van	45,000		
Rates	15,600		
College Fees	4,500	1,455,160	
Figure transferred to Balance Sheet		43,740	(2)

W10

	€
Loan Instalments due	
Loan received 01/09/2018	300,000
– Loan instalments due in next 12 months [€300,000 ÷ 24 × 2]	•25,000 (2)
Figure transferred to Balance Sheet	25,000
Loan 31/12/2018	
Loan received 01/09/2018	300,000 (1)
– Loan instalments due	••25,000 (1)
Figure transferred to Balance Sheet	275,000

W11

	€
Loan Interest	
Loan Interest payable [6% of €300,000 × 4/12]	•6,000 (2)
– Drawings [30% of €6,000]	••(1,800)(1)
Figure transferred to Profit & Loss a/c	4,200
Loan Interest due 31/12/2018	
Loan Interest payable	••6,000 (1)
– Loan Interest paid	(4,500)(1)
Figure transferred to Balance Sheet	1,500

W12

	€
Rent Receivable prepaid 31/12/2018	
Prepaid for 2 months [€4,800 × 2/6]	1,600 (2)
Figure transferred to Balance Sheet	1,600
Rent Receivable	4,800 (1)
– Rent prepaid 31/12/2018	••(1,600)(1)
Figure transferred to Profit & Loss a/c	3,200

W13

	€
Light and Heat	
Payments during the year	18,400 (1)
+ Electricity due 31/12/2018	900 (1)
– Stock of heating oil 31/12/2018	(1,400)(1)
	17,900
– Drawings [30% of €17,900]	••(5,370)(2)
Figure transferred to Profit & Loss a/c	12,530

W14

	€
Wages and General Expenses	
Payments during the year	246,800 (1)
– Wages due 01/01/2018	(6,600)(1)
	240,200
– Drawings (Petrol bill)	(3,100)(2)
+ College Fees [40% of €4,500]	1,800 (2)
Figure transferred to Profit & Loss a/c	238,900

W15

	€
Drawings	
Stock [€120 × 52 weeks]	6,240 (1)
Cash [€280 × 12 months]	3,360 (1)
Petrol	3,100 (1)
Light and Heat [30% of €17,900]	••5,370 (1)
Loan Interest [30% of €6,000]	••1,800 (1)
College Fees [60% of €4,500]	••2,700 (1)
Figure transferred to Balance Sheet	22,570

W16

	€
Sales	
Gross Profit (40% of Sales)	
⇒ Sales [€331,740 × 100/40]	•829,350 (3)
Figure transferred to Trading a/c	829,350

•• Allow full marks for student's own figure if multiplied by '100/40' (Gross Profit × 2·5).

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.
••• Accept correct figure only.

7. Incomplete Records (cont'd.)

(b) Prepare, with workings, a Trading and Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2018. (40)

Trading and Profit and Loss Account (of P. Nunn)
for the year ended 31/12/2018

		€	€
Sales W16			••829,350 **(3)**
Less Cost of Sales			
Stock 01/01/2018		45,500 **(2)**	
Purchases	••510,550 **(2)**		
Less Drawings W15	(6,240)**(2)**	504,310	
		549,810	
Less Stock 31/12/2018 W5		••(52,200)**(2)**	
Cost of Goods Sold			497,610
Gross Profit			331,740
Add Rent Receivable W12			•3,200 **(2)**
Add Investment Interest W8			•2,800 **(2)**
			337,740
Less Expenses			
Light and Heat W13		12,530 **(5)**	
Loan Interest W11		4,200 **(3)**	
Wages and Gen. Expenses W14		238,900 **(6)**	
Rates W7		15,300 **(4)**	
Provision for Bad Debts W6		••1,845 **(2)**	
Deprec: Equipment W3		••18,750 **(2)**	
Delivery Vans W4		••5,250 **(2)**	(296,775)
Net Profit			••40,965 **(1)**

• Allow 1 mark for student's own figure.
•• Allow full marks for student's own figure if consistent with previous work.

(c) (i) What advice would you give Nunn in relation to record keeping? **(6)** (6)

– keep a detailed cash book (1) and general ledger (1) supported by appropriate subsidiary day books (1)
– this would enable Nunn to prepare an accurate Trading, Profit and Loss Account (1)
– avoid reliance on estimates (1) or net worth (1) to ascertain profit

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(ii) Explain what is meant by an 'Accounting Concept'. **(2)** (2)

– an accounting practice or rule (1) that is applied in the preparation of financial statements / final accounts / accounts (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(iii) Name **two** fundamental accounting concepts. (2)

Any 2: **(2 × 1)**
– going concern concept //
– accruals concept / matching concept //
– consistency concept //
– prudence concept

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

8. Overhead Apportionment and Marginal and Absorption Costing (80)

(a) Overhead Apportionment

Barr Ltd has two Production Departments, 1 and 2, and two ancillary Service Departments, A and B. The following are the expected overhead costs for the next period.

Overhead	Total
Depreciation of factory buildings	€14,000
Machine maintenance	€11,000
Factory light and heat	€24,000
Factory cleaning	€9,000
Factory canteen	€5,500

The following information relates to the Production and Service Departments of the factory.

	Production 1	Production 2	Service A	Service B
Volume in cubic metres	2,500	2,000	1,000	500
Floor area in square metres	6,000	5,000	3,000	1,000
Number of employees	270	130	100	50
Book value of buildings	€350,000	€250,000	€70,000	€30,000
Machine hours	60,000	20,000		
Labour hours	30,000	70,000		

(i) Calculate the overhead to be absorbed by each department stating clearly the basis of apportionment used. (27)

Overhead	Basis		Total	Prod. 1	Prod. 2	Serv. A	Serv. B
			€	€	€	€	€
Dep. of factory buildings	Book value	(1)	14,000	●●7,000 (1)	●●5,000 (1)	●●1,400 (1)	●●600 (1)
Machine maintenance	Machine hours	(1)	11,000	●●8,250 (1)	●●2,750 (1)	—	—
Factory light and heat	Volume	(1)	24,000	●●10,000 (1)	●●8,000 (1)	●●4,000 (1)	●●2,000 (1)
Factory cleaning	Floor area	(1)	9,000	●●3,600 (1)	●●3,000 (1)	●●1,800 (1)	●●600 (1)
Factory canteen	No. of employees	(1)	5,500	●●2,700 (1)	●●1,300(1)	●●1,000 (1)	●●500 (1)
			63,500	●31,550 (1)	●20,050 (1)	●8,200 (1)	●3,700 (1)

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

(ii) Transfer Service Department A's costs to Production Departments 1 and 2 on the basis of labour hours. (4)

(iii) Transfer Service Department B's costs to Production Departments 1 and 2 equally between the two departments. (4)

Overhead	Prod. 1	Prod. 2	Serv. A	Serv. B
	€	€	€	€
Total Cost	31,550	20,050	8,200	3,700
Apportion Service A to Production 1 and 2 [30%/70%]	●2,460 (2)	●5,740 (2)	(8,200)	
Apportion Service B to Production 1 and 2 [50%/50%]	●1,850 (2)	●1,850 (2)		(3,700)
	35,860	27,640	—	—

● Allow full marks for student's own figure if consistent with previous work but must be split appropriately.

8. Overhead Apportionment and Marginal and Absorption Costing (cont'd.)

(a) Overhead Apportionment (cont'd.)

(iv) Calculate a suitable overhead absorption rate for each department. (12)

❶ Production 1:

Basis: Machine hours

⇒ Overhead absorption rate $= \dfrac{{}^{\bullet}35{,}860\ (2)}{{}^{\bullet\bullet}60{,}000\ (2)}$

$= 0{\cdot}597666...$

$\cong$ •€0·60 per machine hour (2)

❷ Production 2:

Basis: Labour hours

⇒ Overhead absorption rate $= \dfrac{{}^{\bullet}27{,}640\ (2)}{{}^{\bullet\bullet}70{,}000\ (2)}$

$= 0{\cdot}394857...$

$\cong$ •€0·39 per labour hour (2)

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

** Penalise 1 mark if answers not given to two decimal places where appropriate.
** No deduction if '€' symbol omitted.

(v) Explain what is meant by 'apportionment' and 'reapportionment' of overheads. (9)

❶ Apportionment (5)

- dividing overheads which cannot be specifically identified with any one department (2)
- overheads are divided between cost centres or departments (1) using an equitable basis of apportionment (2)

❷ Reapportionment (4)

- service department(s) costs are reapportioned / divided between production departments (2) because overheads can only be recovered by being included in the cost of production (2)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

8. Overhead Apportionment and Marginal and Absorption Costing (cont'd.)

(b) Marginal and Absorption Costing

Cunningham Ltd produced 20,000 units of product X during the year ended 31/12/2018. 15,000 of these units were sold at €12 per unit. The production costs were as follows:

Direct Materials	€3·20 per unit
Direct Labour	€2·50 per unit
Variable Overhead	€1·30 per unit
Fixed Overhead Cost for the year	€18,000

(i) Prepare Profit and Loss statements under Marginal and Absorption costing principles. (14)

Marginal Costing

		€	€
Sales	[15,000 @ €12·00)		180,000 (1)
Less Production Costs			
Direct Materials	[20,000 × €3·20]	64,000 (1)	
Direct Labour	[20,000 × €2·50]	50,000 (1)	
Variable Overhead	[20,000 × €1·30]	26,000 (1)	
		140,000	
Less Closing Stock	[140,000 ÷ 20,000 × 5,000]	•(35,000)(1)	(105,000)
Contribution			75,000
Less Fixed Overhead			(18,000)(1)
Profit			••57,000 (1)

Absorption Costing

		€	€
Sales			180,000 (1)
Less Production Costs			
Direct Materials	[20,000 × €3·20]	64,000 (1)	
Direct Labour	[20,000 × €2·50]	50,000 (1)	
Variable Overhead	[20,000 × €1·30]	26,000 (1)	
Fixed Overhead		18,000 (1)	
		158,000	
Less Closing Stock	[158,000 ÷ 20,000 × 5,000]	•(39,500)(1)	(118,500)
Profit			••61,500 (1)

• Allow full marks for 25% of student's own figure.
•• Accept correct figure only.

8. Overhead Apportionment and Marginal and Absorption Costing (cont'd.)

(b) Marginal and Absorption Costing (cont'd.)

(ii) Outline the differences between Marginal and Absorption costing. Indicate which method should be used for financial accounting purposes and why. (10)

❶ Difference **(7)**

- different profit figure because closing stock is valued differently (1)
- when costing a product, Marginal costing does not include fixed costs whereas Absorption costing does include fixed costs (1)
- closing stock is valued at a lower figure under Marginal costing (1) because a share of fixed costs is included in the value of stock under Absorption costing but not under Marginal costing (1)
- under Absorption costing, closing stock is valued at a quarter of production costs (variable and fixed) of €158,000 whereas under Marginal costing, closing stock is valued at a quarter of the variable cost only of €140,000 (1)
Value of closing stock (using Absorption costing)	=	•39,500
Value of closing stock (using Marginal costing)	=	•35,000 (1)
Difference	=	4,500
Profit difference is €61,500 – €57,000	=	4,500 (1)

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

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

❷ Method **(1)**

- Absorption costing

❸ Reason **(2)**

- it agrees with standard accounting practice and concepts (1) and matches costs with revenues (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

9. Cash Budgeting (80)

Poole Ltd is preparing to set up business on 01/07/2019 and had made the following forecast for the first six months of trading:

Sales Budget						
	July	Aug.	Sept.	Oct.	Nov.	Dec.
Sales (units)	10,500	11,500	12,000	12,500	13,000	13,500
Sales (€)	399,000	437,000	456,000	475,000	494,000	513,000

(i) Each product requires 4 kg of material X, which costs €3·50 per kg.

(ii) Stocks of finished goods are maintained at 70% of the following month's sales requirements.

(iii) Stocks of raw materials, sufficient for 30% of the following month's requirements in kgs, are held at the end of each month.

(iv) The cash collection pattern from sales is expected to be:

Cash Customers: 20% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers: 80% of sales revenue will be from credit customers. These debtors will pay their bills 50% in the month after sale and the remainder in the second month after sale.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

Expected Costs: Wages €12,000 per month, plus 5% of sales revenue per month, payable as incurred.
Variable overheads €3 per unit, payable as incurred.
Fixed overheads (including depreciation) €26,000 per month, payable as incurred.

Capital Costs: Equipment will be purchased on 1 July costing €48,000 which will have a useful life of 8 years.

To finance this purchase a loan of €42,000 will be secured at 6% per annum. The capital sum is to be repaid in monthly instalments over 2½ years commencing in August. The interest for each month is to be paid on the last day of that month based on the amount of the loan outstanding at that date.

(a) Prepare a Production Budget for the four months July to October 2019. (11)

Production Budget (for Poole Ltd) for July to October 2019

	July	Aug.	Sept.	Oct.	Nov.	Dec.
Sales (units)	10,500 (1)	11,500 (1)	12,000 (1)	12,500 (1)	13,000	13,500
+ Closing Stock [70%]	••8,050 (1)	••8,400 (1)	••8,750 (1)	••9,100 (1)	9,450	
	18,550	19,900	20,750	21,600	22,450	
– Opening Stock	—	•(8,050)(1)	•(8,400)(1)	•(8,750)(1)	(9,100)	
Production (units)	18,550	11,850	12,350	12,850	13,350	

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

9. Cash Budgeting (cont'd.)

(b) Prepare a Raw Materials Purchase Budget (in units and €) for the four months July to October 2019. (13)

Raw Materials Budget (for Poole Ltd) for July to October 2019

	July	Aug.	Sept.	Oct.	Nov.
Production (units)	•18,550 (½)	•11,850 (½)	•12,350 (½)	•12,850 (½)	13,350
Materials per Unit (kg)	× ••4 (½)	× 4	× 4	× 4	
Required for Production (kg)	74,200 (½)	47,400 (½)	49,400 (½)	51,400 (½)	
+ Closing Stock (kg)	•14,220 (½)	•14,820 (½)	•15,420 (½)	•16,020 (½)	
	88,420	62,220	64,820	67,420	
– Opening Stock (kg)	—	•(14,220)(½)	•(14,820)(½)	•(15,420)(½)	
Required for Purchases (kg)	•88,420 (½)	•48,000 (½)	•50,000 (½)	•52,000 (½)	
Unit Price (€ per kg)	× ••3·50 (½)	× 3·50	× 3·50	× 3·50	
Materials Purchases (€)	•309,470 (½)	•168,000 (½)	•175,000 (½)	••182,000 (1)	

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

(c) Prepare a Cash Budget for the four months July to October 2019. (37)

Cash Budget (for Poole Ltd) for July to October 2019

	July €	Aug. €	Sept. €	Oct. €
Receipts				
Cash Sales receipts W1	75,810 (1)	83,030 (1)	86,640 (1)	90,250 (1)
Credit Sales receipts (1 month) W2	—	159,600 (1)	174,800 (1)	182,400 (1)
Credit Sales receipts (2 months) W3	—	—	159,600 (1)	174,800 (1)
Total	75,810	242,630	421,040	447,450
Payments				
Purchases	—	•309,470 (1)	•168,000 (1)	•175,000 (1)
Wages W5	31,950 (1)	33,850 (1)	34,800 (1)	35,750 (1)
Variable Overheads W6	•55,650 (1)	•35,550 (1)	•37,050 (1)	•38,550 (1)
Fixed Overheads W7	25,500 (2)	25,500	25,500	25,500
Equipment	48,000 (1)	—	—	—
Loan Repayments W9	—	1,400 (1)	1,400	1,400
Interest W10	210 (1)	•203 (1)	•196 (1)	•189 (1)
Total	161,310	405,973	266,946	276,389
Net Monthly Cash Flow	(85,500)(1)	(163,343)(1)	154,094 (1)	171,061 (1)
Bank Loan - Financing	42,000 (1)	—	—	—
Opening balance	—	•(43,500)(1)	•(206,843)(1)	•(52,749)(1)
Closing balance	(43,500)	(206,843)	(52,749)	••118,312 (1)

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

9. Cash Budgeting (cont'd.)

(d) Prepare a budgeted Trading and Profit and Loss Account for the four months ending 31/10/2019 (if the budgeted cost of a unit of finished goods is €16). (13)

Budgeted Trading, Profit and Loss Account (for Poole Ltd)
for the four months ending 31/10/2019

		€	€
Sales [€399,000 + €437,000 + €456,000 + €475,000]			1,767,000 (1)
Less Cost of Sales			
Opening Stocks		—	
Purchases [€309,470 + €168,000 + €175,000 + €182,000]		•834,470 (1)	
		834,470	
Less Closing Stocks			
Finished Goods [•9,100 × €16]	•145,600 (1)		
Raw Materials [•16,020 × €3·50]	•56,070 (1)	(201,670)	(632,800)
Gross Profit			1,134,200
Less Expenses			
Discount Allowed W4		17,670 (2)	
Wages W5		•136,350 (1)	
Variable Overheads W6		•166,800 (1)	
Fixed Overheads W7		•102,000 (1)	
Depreciation: Equipment W8		2,000 (1)	(424,820)
Operating Profit			709,380
Less Interest W10			(798)(1)
Net Profit			••708,582 (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.

Workings:

W1 Receipts: Cash Sales

	€
July [95% of 20% of €399,000]	75,810 (1)
Aug. [95% of 20% of €437,000]	83,030 (1)
Sept. [95% of 20% of €456,000]	86,640 (1)
Oct. [95% of 20% of €475,000]	90,250 (1)
Figure transferred Cash Budget	335,730

W2 Receipts: Credit Sales (1 month)

	€
July	–
Aug. [50% of 80% of €399,000]	159,600 (1)
Sept. [50% of 80% of €437,000]	174,800 (1)
Oct. [50% of 80% of €456,000]	182,400 (1)
Figure transferred Cash Budget	516,800

W3 Receipts: Credit Sales (2 months)

	€
July	–
Aug.	–
Sept. [50% of 80% of €399,000]	159,600 (1)
Oct. [50% of 80% of €437,000]	174,800 (1)
Figure transferred Cash Budget	334,400

W4 Discount Allowed

	€
July [5% of 20% of €399,000]	3,990
Aug. [5% of 20% of €437,000]	4,370
Sept. [5% of 20% of €456,000]	4,560
Oct. [5% of 20% of €475,000]	4,750
Figure transferred to Profit & Loss a/c	17,670 (2)

or

Discount Allowed

Sales (July-Oct.)	1,767,000
Discount [5% of 20% of €1,767,000]	17,670
Figure transferred to Profit & Loss a/c	17,670 (2)

or

Discount Allowed

Cash Sales Receipts (July-Oct.) W1	335,730
Discount [€335,730 ÷ 95 × 5]	17,670
Figure transferred to Profit & Loss a/c	17,670 (2)

9. Cash Budgeting (cont'd.)

Workings: (cont'd.)

W5 Wages

	€
(Costs + 5% of sales revenue)	
July [€12,000 + 5% of €399,000]	31,950 **(1)**
Aug. [€12,000 + 5% of €437,000]	33,850 **(1)**
Sept. [€12,000 + 5% of €456,000]	34,800 **(1)**
Oct. [€12,000 + 5% of €475,000]	35,750 **(1)**
Figure transferred Cash Budget	136,350
Figure transferred to Profit & Loss a/c	136,350 **(1)**

W6 Variable Overheads

	€
July [18,550 × €3·00]	55,650 **(1)**
Aug. [11,850 × €3·00]	35,550 **(1)**
Sept. [12,350 × €3·00]	37,050 **(1)**
Oct. [12,850 × €3·00]	38,550 **(1)**
Figure transferred Cash Budget	166,800
Figure transferred to Profit & Loss a/c	166,800 **(1)**

W7 Fixed Overheads (incl. depreciation)

	€
Payments per month	26,000
– Depreciation [€48,000 ÷ (8 × 12)]	(500)
Charge per month	25,500 **(2)**
Total charge (July-Oct.)	× 4
Figure transferred to Profit & Loss a/c	102,000 **(1)**

W8 Depreciation: Equipment

	€
Charge per month [€48,000 ÷ (8 × 12)]	500
Total charge (July-Oct.) [€500 × 4]	2,000 **(1)**
Figure transferred to Profit & Loss a/c	2,000

W9 Loan Repayments

	€
July	–
Aug. [42,000 ÷ (2·5 × 12)]	1,400 **(1)**
Sept. [42,000 ÷ (2·5 × 12)]	1,400
Oct. [42,000 ÷ (2·5 × 12)]	1,400

W10 Interest

	€
Payable on last day of month on amount outstanding on that date:	
July [6% of €42,000 ÷ 12]	210 **(1)**
Aug. [6% of €40,600 ÷ 12]	203 **(1)**
Sept. [6% of €39,200 ÷ 12]	196 **(1)**
Oct. [6% of €37,800 ÷ 12]	189 **(1)**
Figure transferred Cash Budget	798
Figure transferred to Profit & Loss a/c	798 **(1)**

(e) Explain why it is important for businesses to prepare regular budgets. (6)

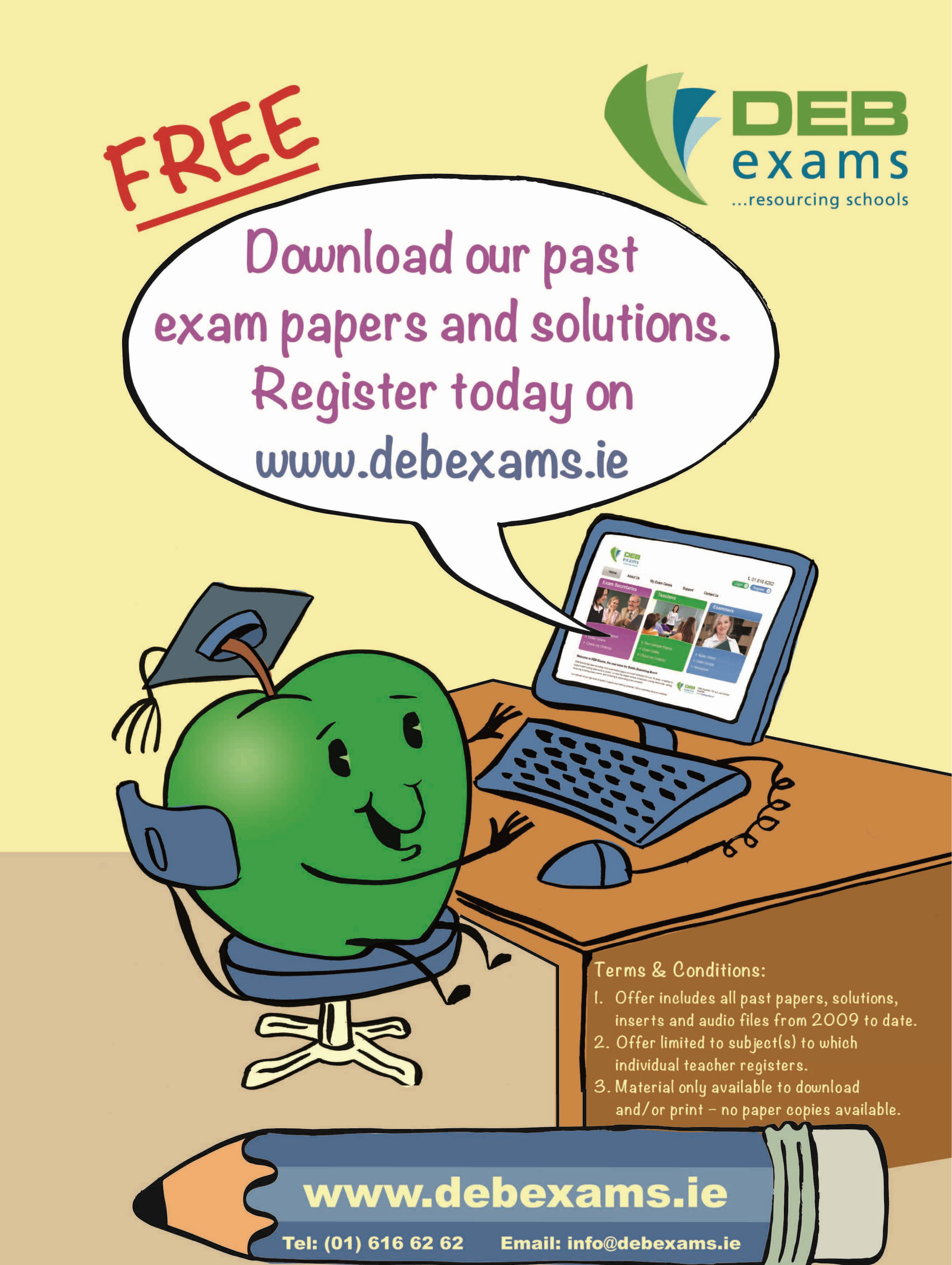
Any 3: **(3 × 2)**

- budgeting is part of the planning process (1) - it is a financial road map for a business (1) //
- budgeting helps define areas of responsibility for staff / motivates staff to achieve targets (1) and improves communication and builds teamwork (1) //
- the resources of the organisation are used as efficiently as possible (1) and it can adapt quickly to changing circumstances (1) //
- budgeted figures can be compared with actual performance (1) - adverse variances can be investigated and action taken to ensure it does not happen again (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

NOTES:

NOTES:



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