PRE-LEAVING CERTIFICATE EXAMINATION, 2011

ACCOUNTING - HIGHER LEVEL

(400 marks)

TIME : 3 HOURS

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).
This section has four questions (Numbers 1-4). The first question carries 120 marks and the remaining three questions carry 60 marks each. Candidates should answer either **QUESTION 1 only** OR else attempt any **TWO** of the remaining three questions in this section.

Section 2: Financial Accounting (200 marks).
This section has three questions (Numbers 5-7). Each question carries 100 marks. Candidates should answer any **TWO** questions.

Section 3: Management Accounting (80 marks).
This section has two questions (Numbers 8 and 9). Each question carries 80 marks. Candidates should answer **ONE** of these questions.

Calculators
Calculators may be used in answering the questions on this paper: however, it is very important that workings are shown in the answer-book(s) so that full credit can be given for correct work.

SECTION 1 (120 marks)
Answer **Question 1** OR any **TWO** other questions

1. Company Final Accounts

Walton Ltd has an Authorised Capital of €1,100,000 divided into 800,000 Ordinary Shares at €1 each and 300,000 9% Preference Shares at €1 each.
The following Trial Balance was extracted from its books on 31/12/2010.

	€	€
Buildings at cost	888,000	
Delivery Vans (cost €360,000)	245,000	
Discount (net)		18,000
Profit and Loss Balance 1/1/2010	19,600	
Stocks on hand 1/1/2010	67,400	
Debenture interest for the first 3 months	5,100	
8% Investments 1/1/2010	120,000	
Patents (incorporating 4 months investment income received)	39,800	
Purchases and Sales	1,010,000	1,540,000
Interim dividends for first 6 months	38,000	
Bad Debts Provision		4,200
Debtors and Creditors	78,200	52,300
Bank		21,000
Salaries and general expenses	162,500	
9% Debentures		220,000
Issued Share Capital – Ordinary Shares		680,000
– 9% Preference Shares		200,000
Directors fees	32,800	
Rent	12,400	
Advertising (including Suspense)	16,700	
	2,735,500	2,735,500

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

(i) Stock at 31/12/2010 at cost was €82,100 - this figure includes damaged stock which cost €5,400 but which now has a net realisable value of €3,600.

(ii) Patents, which incorporated 4 months investment income, are to be written off over an 10 year period commencing in 2010.

(iii) 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 30/4/2010 a delivery van, which had cost €36,000 on 1/6/2006, was traded in against a new van which cost €48,000. An allowance of €8,500 was given on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.

(iv) The suspense figure arises as a result of the incorrect figure for debenture interest (although the correct entry had been made in the bank account) and discount received €300 entered only in the creditors account.

(v) During 2010 a store room which cost €22,000 and stock which cost €28,000 were destroyed by fire. A new store was built by the firms own workers. The cost of their labour €28,000 had been treated as a business expense and the materials costing €37,000 were taken from the firms stocks. The insurance company has agreed to contribute €50,000 in compensation for the fire damage. No adjustment had been made in the books in respect of the old or new store.

(vi) The figure for bank in the Trial Balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2010 has arrived showing an overdraft of €16,200. A comparison of the bank account and bank statement has revealed the following discrepancies:
1. A cheque for €3,500, issued to a supplier, had been entered in the books (cash book and ledger) as €5300.
2. A credit transfer of €1,200 had been paid direct to the firm's bank account on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 40c in the €1.
3. A cheque for fees €1,800 issued to a director had not yet been presented for payment.

(vii) The Directors recommend that:
1. The Preference dividend due be paid.
2. A final dividend on ordinary shares be provided bringing the total dividend up to 8 cent per share.
3. Provision be made for both Investment Income and Debenture Interest due.
4. Provision for bad debts be adjusted to 5% of debtors.
5. Buildings to be depreciated by 2% of cost.

You are required to prepare a:

(a) Trading and Profit and Loss account for the year ended 31/12/2010. (75)
(b) Balance Sheet as at 31/12/2010. (45)
(120 marks)

2. Tabular Statement

The financial position of Smyth Ltd on 1/1/2010 is shown in the following Balance Sheet:

Balance sheet as at 1/1/2010

	Cost	Dep. to date	Net
	€	€	€
Fixed Assets			
Land and buildings	545,000	37,000	508,000
Delivery vans	84,000	26,800	57,200
	629,000	63,800	565,200
Current Assets			
Stock	46,800		
Debtors	32,100		
Insurance prepaid	1,650	80,550	
Less Creditors: amounts falling due within 1 year			
Creditors	41,500		
Bank	12,700		
Expenses due	1,050	(55,250)	
Net Current Assets			25,300
			590,500
Financed by			
Capital and Reserves			
Authorised – 850,000 Ordinary shares @ €1 each			
Issued – 480,000 Ordinary shares @ €1 each		480,000	
Share Premium		90,000	
Profit and Loss balance		20,500	590,500
			590,500

The following transactions took place during 2010:

Jan: Smyth Ltd Bought an adjoining business on 1/1/2010 which included Buildings €210,000, Vehicles €22,000 and Creditors €12,500. The purchase price was discharged by granting the seller 200,000 shares in Smyth Ltd at a premium of 15c per share.

Mar: Goods, previously sold for €18,000 were returned. The selling price of these goods was cost plus 20%. Owing to the delay in returning these goods a credit note was issued showing a deduction of 15% of selling price as a restocking charge.

April: A creditor who was owed €12,500 by Smyth Ltd accepted a vehicle, the book value of which was €10,900, in full settlement of the debt. This vehicle had cost €17,800.

May: Smyth Ltd decided to re-value the land and buildings on 1/5/2010 at €880,000 which includes land now valued at €130,000.

Sept: Received a bank statement on September 30 showing a direct debit of €2,700 to cover insurance for the year ending 31/9/2011 and a credit transfer received of €2,720 representing 8 months rent in advance from September 1.

Nov: A payment of €750 was received from a debtor whose debt had been previously written off and who now wishes to trade with Smyth Ltd again. This represents 30% of the original debt and the debtor had guaranteed to pay the remainder of the debt in March 2011.

Dec: The Buildings depreciation is charged at the rate of 2% per annum of value at 1/5/2010. The total depreciation charge for the year on Delivery van was €14,000.

You are required to:

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 31/12/2010. (60)

(60 marks)

3. Correction of Errors and Suspense Account

The Trial Balance of C. O'Connor, a garage owner, failed to agree on 31/12/2010. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €28,500.

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

(i) A motor car, purchased on credit from E. White for €23,000, had been entered on the incorrect side of White's account as €32,000 and credited as €3,200 in the Equipment account.

(ii) O'Connor had returned a motor car, previously purchased on credit from a supplier for €15,400. O'Connor entered this transaction as €14,500 on the correct sides of the correct accounts in the ledger. However, a credit note subsequently arrived from the supplier showing a restocking charge of €300 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €15,100 in the creditor's account.

(iii) Car parts, previously sold on credit for €640, had been returned to O'Connor. These goods had been incorrectly entered as €40 on the credit of the fixture and fittings account and as €460 on the debit of the purchases account.

(iv) O'Connor sold privately owned jewellery to a debtor of the business on credit €3,200. This sale had been treated in error as a cash sale of stock. O'Connor intended that the proceeds of this sale were to be retained in the business.

(v) A cheque for €4,400 paid by O'Connor out of a private bank account for 11 months hire of diagnostic equipment up to 31/3/2011 had not been entered in the books.

You are required to:

(a) Journalise the necessary corrections. (40)

(b) Prepare a Statement showing the correct net profit. (14)

(c) Explain the difference between an error of original entry and an error of commission. (6)

(60 marks)

4. Club Accounts

Included among the assets and liabilities of Greenhills Golf Club on 1/1/2010 were the following:

Clubhouse and course €920,000, Bar stock €12,200, Equipment (at cost) €124,000, Life membership €36,000, Bar debtors €740, Bar creditors €5,400, Subscriptions prepaid €1,200, 6% Government investments €80,000, Investment interest due €800, Levy Reserve fund €32,000, and Wages due €3,200.

The club treasurer has supplied the following account of the Club's activities during the year ended 31/12/2010:

Receipts	**€**	**Payments**	**€**
Bank Current Account	12,600	Bar purchases	82,100
Investment income	3,200	Sundry expenses	126,000
Entrance fees	18,700	Catering costs	29,500
Catering receipts	26,000	Equipment	86,000
Annual sponsorship	46,000	Golf lessons for teams	3,800
Subscriptions	210,000	Repayment of €40,000 loan on 31/12/2010	
Bar receipts	94,200	together with 1¼ years' interest	43,600
		Balance	39,700
	410,700		410,700

You are given the following additional information and instructions:

(i) Bar stock at 31/12/2010 was €16,300.
(ii) Equipment owned on 31/12/2010 is to be depreciated at the rate of 15% of cost.
(iii) Clubhouse and course to be depreciated by 2%.
(iv) Bar debtors and bar creditors on 31/12/2010 were €830 and €6,100 respectively.
(v) Subscriptions include:
   1. 6 life memberships bringing total life memberships to 14.
   2. Subscriptions for 2011 amounting to €3,200.
   3. Levy for 2010 of €120 each on 250 members.
   4. Levy of €120 on 8 members for 2009.
(vi) Life membership was to be written off over a 8-year period commencing in 2010.

You are required to:

(a) Show the Club's Accumulated Fund (Capital) on 1/1/2010. (25)

(b) Show the Income and Expenditure Account for the year ended 31/12/2010. (25)

(c) What points would you as an ordinary member make concerning the proposed 5-year levy scheme to find a €200,000 extension? (10)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of D'Arcy plc, a manufacturer in the sportswear industry, for the year ended 31/12/2010. The company has an Authorised Capital of €800,000 made up of 600,000 ordinary shares at €1 and 200,000 9% preference shares at €1 each. The firm has already issued 400,000 ordinary shares and 150,000 of the 9% preference shares.

Trading and Profit and Loss account for year ended 31/12/2010

	€	€
Sales		720,000
Cost of goods sold		(432,000)
Operating expenses for year		(168,000)
Interest for year		(24,000)
Net Profit for year		96,000
Dividends		(41,500)
Retained Profit		54,500
Profit and Loss Balance 1/1/2010		18,500
Profit and Loss Balance 31/12/2010		73,000

Ratios and figures for year ended 31/12/2009

Earnings per Ordinary Share	17.8c
Dividend per Ordinary Share	6.5c
Interest Cover	4.5 times
Quick Ratio	0.95 to 1
Return on Capital Employed	11.5%
Market value of an ordinary share	€1.60
Gearing	49%
Dividend Cover	2.7 times

Balance Sheet as at 31/12/2010

	€	€
Fixed Assets	720,000	
Investments (market value €95,000)	130,000	850,000
Current Assets (including Stock €39,000 and Debtors €32,000)	84,000	
Current Liabilities		
Trade Creditors	(37,000)	
Bank	(24,000)	23,000
		873,000
Financed by		
8% Debentures (2016/2017)		250,000
Capital and Reserves		
Ordinary shares @ €1 each	400,000	
9% Preference shares @ €1 each	150,000	
Profit and Loss Balance	73,000	623,000
		873,000

Market Value of one ordinary share €1.85

You are required to calculate the following for 2010:

(a) (i) The Opening Stock if the rate of stock turnover is 12 (based on average stock)
(ii) Return on Capital Employed
(iii) The Earnings per Share
(iv) The Dividend Yield
(v) How long it would take one Ordinary share to recover its value at present payout rate? (45)

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

(c) Having assessed D'Arcy plc, what actions would you advise the company to take? (15)

(100 marks)

6. Incomplete Records

On 1/1/2010 T. Walsh purchased a business for €325,000 consisting of the following tangible assets and liabilities: Premises €280,000, Stock €22,600, Debtors €18,400, 3 months Premises Insurance prepaid €3,600, Trade Creditors €15,800 and Wages due €800.

During 2010 Walsh did not keep a full set of accounts but was able to supply the following information on 31/12/2010.

Cash Payments:	Lodgements €108,000, General Expenses €42,800, Purchases €62,000.
Bank Payments:	Equipment €32,000, Light and Heat €10,500, Annual Premises Insurance premium €15,600, Creditors €44,000, Interest €2,200, Furniture €12,000.
Bank Lodgements:	Debtors €41,000, Cash €108,000, Dividends €6,500.

Walsh took from stock goods to the value of €90 and cash €80 per week for household use during the year. Walsh borrowed €80,000 on 1/8/2010 part of which was used to purchase an adjoining premises costing €74,000. It was agreed that Walsh would pay interest on the last day of each month at the rate of 9% per annum. The capital sum was to be repaid in a lump sum in the year 2016 and to provide for this the bank was to transfer €950 on the last day of each month from Walsh's bank account into an investment fund. Walsh estimated that 20% of Furniture and Light and Heat used as well as 25% of interest payable for the year should be attributed to the private section of the premises.

Included in the assets and liabilities of the firm on 31/12/2010 were Stock €25,200, Debtors €21,400, Trade Creditors €19,200, Cash €890, Electricity due €1,200 and €900 interest earned by the fund to date.

You are required to show, with workings, the:

(a) Trading, Profit and Loss Account, for the year ended 31/12/2010. (52)

(b) Balance Sheet as at 31/12/2010. (40)

(c) (i) Outline what is meant by the 'Net Worth' method for incomplete records.
(ii) State **two** disadvantages of using the net worth method when preparing accounts. (8)

(100 marks)

7. Published Accounts

Harrington plc has an Authorised Capital of €850,000 divided into 600,000 Ordinary Shares at €1 each and 250,000 9% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2010.

	€	€
Vehicles at cost	320,000	
Vehicles – Accumulated Dep. on 1/1/2010		76,000
Investment income		7,400
Buildings at cost	740,000	
Buildings – Accumulated Dep. on 1/1/2010		68,800
Debtors and Creditors	124,000	96,000
6% Investments	240,000	
Stock at 1/1/2010	72,000	
Patents at 1/1/2010	42,000	
Administrative expenses	176,000	
Distribution costs	127,000	
Purchases and Sales	1,040,000	1,675,000
Rental income		36,000
8% Debentures 2015/2016		240,000
Profit on sale of land		66,000
Bank	49,500	
VAT		32,300
Dividends paid	54,000	
Profit and Loss at 1/1/2010		65,000
Issued Capital		
Ordinary Shares		400,000
Preference Shares		200,000
Provision for bad debts		12,200
Debenture interest paid	7,200	
Patent Royalties		17,000
	2,991,700	2,991,700

The following information is also relevant:

(i) Stock on 31/12/2010 is €64,000.
(ii) The patent was acquired on 1/1/2008 for €56,000. It is being amortised over 8 years in equal instalments. The amortisation is to be included in cost of sales.
(iii) Provide for debenture interest due, investment interest due, auditors fees €8,500, director's fees €12,800 and corporation tax €32,000.
(v) Depreciation is to be provided as follows:
Vehicles at the rate of 20% of cost.
Buildings at the rate of 2% straight line and is to be allocated 60% distribution costs and 40% administrative expenses. There was no purchase or sale of buildings during the year.
(v) During the year land adjacent to the company's premises, which had cost €54,000 was sold for €120,000. At the end of the year the company re-valued its buildings to €800,000. The company wishes to incorporate this value in this year's accounts.
(vi) Included in administrative expenses is the receipt of €5,400 for discount.
(vii) On 1/7/2010, the Ordinary shareholders received an interim dividend of €45,000 and Preference Shareholders received €9,000. The directors propose the payment of the Preference dividend due and a final dividend on Ordinary shares to bring the total dividend up to 14c per share.

You are required to:

(a) Prepare the published Profit and Loss account for the year ended 31/12/2010 and a Balance Sheet as at that date, in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:
1. Accounting policy note for tangible fixed assets and stock.
2. Operating profit.
3. Interest payable.
4. Dividends.
5. Tangible fixed assets. (85)

(b) (i) Explain, giving **two** examples, what is meant by 'exceptional items'.
(ii) Describe **three** additional disclosures requested of Public Limited Companies by the Stock Exchange. (15)

(100 marks)

SECTION 3 (80 marks)
Answer **ONE** question

8. Marginal and Absorption Costing

A. McGinley Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2010, during which 24,000 units were produced and sold, was as follows:

	€	€
Sales		432,000
Materials	57,600	
Direct labour	129,600	
Factory overheads	72,000	
Administration expenses	32,000	
Selling expenses	38,000	329,200
Net Profit		102,800

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% of sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold at €22 per unit to provide a profit of 10% of the sales revenue received from these same units.

(c) The profit the company would make in 2011 if it reduced its selling price to €16, increased fixed costs by €40,000 and thereby increased the number of units sold to 30,000, with all other cost levels and percentages remaining unchanged.

B. Maybin Ltd, produces 24,000 units of product during the year ended 31/12/2010. 21,000 of these units were sold at €12 per unit. The product costs were as follows:

Direct Materials	€1.80 per unit
Direct labour	€3.20 per unit
Variable Overhead	€2.40 per unit
Fixed Overhead Cost for the year	€40,000

You are required to calculate:

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

(b) Explain, using examples, the difference between controllable and uncontrollable costs.

(80 marks)

9. Production Budgeting

Keogh Ltd has recently completed its sales forecast for the year to 31 December 2011.
It expects to sell two products - Minor at €130 and Major at €175.

All stocks are to be increased by 30% from their opening levels by the end of 2011 and are valued using the FIFO method.

	Minor	**Major**
Sales demand is expected to be:	12,500 units	8,750 units

Stocks of finished goods on 1 January 2011 are expected to be:

Minor	650 units @ €75 each
Major	480 units @ €120 each

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Minor	**Major**
Material X	4 kg	6 kg
Material Y	3 kg	4 kg
Skilled labour	3 hours	5 hours

Stocks of raw materials on 1 January 2011 are expected to be:

Material X	800 kg @ €4.50 per kg
Material Y	600 kg @ €2.50 per kg

The expected prices for raw materials during 2011 are:

Material X	€5.00 per kg
Material Y	€3.00 per kg

The skilled labour rate is expected to be €15 per hour.

The company's production overhead costs are expected to be:

Variable	€2 per skilled labour hour
Fixed	€323,835 per annum

You are required to prepare, for the year to 31 December 2011, Keogh Ltd's:

(a) Production Budget (in units).

(b) Raw Materials Purchases Budget (in units and €).

(c) Production Cost/Manufacturing Budget.

(d) Budgeted Trading Account (*if the budgeted cost of a unit of Minor and Major is €95 and €152 respectively*).

(e) Outline three advantages of budgeting to a business.

(80 marks)

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