AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA **M.55**

LEAVING CERTIFICATE EXAMINATION, 2001

ACCOUNTING - HIGHER LEVEL

(400 marks)

THURSDAY, 14TH JUNE - MORNING 9.30 a.m. to 12.30 p.m.

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).

This section has 4 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 including a Manufacturing Account**

Quinn Ltd., a manufacturing firm, has an authorised capital of £950,000, divided into 650,000 Ordinary Shares at £1 each and 300,000 6% Preference Shares £1each. The following Trial Balance was extracted from its books on 31/12/2000.

	£	£
Factory Land and buildings (cost £550,000)	506,000	
Plant and machinery (cost £260,000)	180,000	
Profit and Loss balance 1/1/2000		45,500
Bank		9,400
Debtors and Creditors	84,500	58,200
Purchases of raw materials	461,900	
Sales		821,500
Sale of scrap materials		3,500
Direct factory wages	149,200	
General factory overheads (incorporating suspense)	62,500	
Selling and distribution expenses	29,400	
Administration expenses	43,000	
8% Debentures (including £45,000 issued on 1/5/2000)		150,000
Stocks on hand at 1/1/2000		
Finished goods	64,500	
Raw materials	41,000	
Work in progress	36,000	
Interim dividends for 6 months	26,500	
Issued share capital - Ordinary shares		380,000
- 6% Preference shares		200,000
VAT		16,400
	1,684,500	1,684,500

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

(i) Stocks on hand at 31/12/2000:

	£
Finished goods.	82,000
Raw materials;	49,000
Work-in-progress;	42,000

(ii) No record has been made in the books for raw materials costing £11,000 which were in transit on 31/12/2000. The invoice for these goods had been received.

(iii) Included in the figure for sales is £2,000 received from the sale of old machinery. This machinery had cost £25,000 on 1/10/1995 and was sold on 30/6/2000. The cheque received had been entered in the bank account. These were the only entries in the books.

(iv) It was discovered that goods, which cost the firm £7,200 to produce, were sent to a customer on a sale or return basis. These goods were charged in error to the customer at cost plus 25%.

(v) The suspense figure arises as a result of discount allowed £600 entered only in the discount account.

(vi) During 2000, Quinn Ltd., built an extension to the warehouse. The work was carried out by the company's own employees. The cost of their labour £22,000 is included in factory wages. The materials, costing £28,000, were taken from stocks. No entry had been made in the books in respect of this extension.

(vii) Depreciation is to be provided on fixed assets as follows:
Plant and machinery - 20% of cost per annum, from date of purchase to date of sale.
Buildings - 2% of cost per annum for a full year (land at cost on 1/1/2000 was £60,000)
At the end of 2000 the company re-valued the land and buildings at £660,000

(viii) The directors are proposing that:
1. the preference dividend due be paid
2. the total ordinary dividend for the year should be 10p per share.
3. provision should be made for debenture interest due and corporation tax of £24,000.

You are required to

(a) Prepare manufacturing, trading and profit and loss accounts for the year ended 31/12/2000. (75)

(b) Prepare a balance sheet as at 31/12/2000. (45)

(120 marks)

2. Tabular Statement

The financial position of Quirke Ltd on 1/1/2000 is shown in the following balance sheet:

Balance sheet as at 1/1/2000

	Cost	Dep to date	Net
Fixed Assets	**£**	**£**	**£**
Land & buildings	350,000	28,000	322,000
Delivery vans	65,000	26,000	39,000
	415,000	54,000	361,000
Current Assets			
Stock	63,700		
Insurance prepaid	700		
Debtors	52,600	117,000	
Less Creditors: amount falling due within 1 year			
Creditors	51,500		
Bank	11,700		
Wages due	2,800	66,000	
Net Current Assets			51,000
			412,000
Financed by			
Capital and Reserves			
Authorised - 450,000 ordinary shares @ £1 each			
Issued - 300,000 ordinary shares @ £1 each		300,000	
Share premium		36,000	
Profit and loss balance		76,000	412,000
			412,000

The following transactions took place during 2000:

Jan	Quirke Ltd decided to re-value the land and buildings at £480,000 on 1/1/2000 which includes land now valued at £80,000.
Feb	Quirke Ltd bought an adjoining business on 1/2/2000 which included buildings £120,000, delivery vans £44,000 and creditors £24,000. The purchase price was discharged by granting the seller 120,000 shares in Quirke Ltd at a premium 25p per share.
March	Goods previously bought for £2,500 by Quirke Ltd were returned. Owing to a delay in returning these goods a credit note was issued showing a deduction of 10% of invoice price as a restocking charge.
April	A delivery van which cost £16,000 was traded-in against a new van costing £28,000. An allowance of £7,500 was made for the old van. Depreciation to date on the old van was £9,600 and the depreciation charge for the year was £20,000.
May	Received a bank statement on May 31 showing a direct debit of £1,800 to cover fire insurance for year ended 31/5/2001.
July	A payment of £500 was received from a debtor whose debt had been previously written off and who now wishes to trade with Quirke Ltd again. This represents 40% of the original debt and the debtor had undertaken to pay the remainder of the debt in January 2001.
Dec	The buildings depreciation charge for the year to be 2% of book value. The depreciation charge to be calculated from date of valuation and date of purchase.

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 31/12/2000.

(60 marks)

3. Revaluation of Fixed Assets

On 1 January 1996 Quick Ltd owned a building which had cost £350,000. The company depreciates its assets at the rate of 2% straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and nil depreciation in the year of disposal. This building had been purchased eight years earlier and depreciation had been charged against profits in each of these eight years.

The following details were taken from the firm's books:

Jan 1 1996	Revalued building at £480,000.
Jan 1 1998	Purchased additional building for £240,000. During 1998, £60,000 was paid to a building contractor for an extension to this recently purchased building. The company's own employees also worked on the extension and they were paid wages amounting to £20,000 by Quick Ltd for this work.
Jan 1 1999	Revalued buildings owned at £880,000 (a 10% increase in respect of each building).
Jan 1 2000	Sold for £550,000 the building owned on 1/1/1996. The remaining building was revalued at £400,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 1996 to 31 December 2000. (Bank Account and Profit and Loss **not** required). **(60 marks)**

4. Cash Flow Statement

The following are the balance sheets of Quality Plc as at 31/12/1999 and 31/12/2000 together with an abridged profit and loss account for the year ended 31/12/2000

Abridged Profit and Loss Account for the year ended 31/12/2000		**£**
Operating profit		177,000
Interest paid		(7,000)
Profit before taxation		170,000
Taxation		(80,000)
Profit after taxation		90,000
Dividends - Interim	12,000	
- Proposed	48,000	(60,000)
Retained profits for the year		30,000
Retained profits on 1/1/2000		210,000
Retained profits on 31/12/2000		240,000

Balance Sheets as at	**31/12/2000**		**31/12/1999**	
Fixed Assets	**£**	**£**	**£**	**£**
Land and buildings	440,000		500,000	
Less accumulated depreciation	(50,000)	390,000	(45,000)	455,000
Machinery at cost	410,000		320,000	
Less accumulated depreciation	(170,000)	240,000	(140,000)	180,000
		630,000		635,000
Financial Assets				
Quoted Investments		100,000		60,000
Current Assets				
Stock	225,000		190,000	
Debtors	185,000		160,000	
Bank	40,000		10,000	
	450,000		360,000	
Less Creditors: amounts falling due within 1 year				
Trade Creditors	242,000		210,000	
Taxation	50,000		65,000	
Dividends	48,000		30,000	
	(340,000)		(305,000)	
Net Current Assets		110,000		55,000
		840,000		750,000
Financed by				
Creditors: amounts falling due after more than 1 year				
10% Debentures		50,000		90,000
Capital and Reserves				
£1 Ordinary shares		530,000		450,000
Share premium		20,000		–
Profit and loss account		240,000		210,000
		840,000		750,000

The following information is also available:

1 There were no disposals of machinery during the year but new machines were acquired.
2 There were no additions to buildings during the year. Buildings were disposed of for £61,000.
3 Depreciation charged for the year on buildings in arriving at the operating profit was £9,000.

You are required

(a) To reconcile the operating profit to net cash inflow from operating activities. **(20)**
(b) To prepare the cash flow statement of Quality Plc for the year ended 31/12/2000. **(32)**
(c) To explain why profit does not always mean a corresponding increase in cash. **(8)**
(60 marks)

SECTION 2 (200 Marks)
Answer **ANY TWO** questions

5. **Interpretation of Accounts**

The following figures have been taken from the final accounts of Quicken Ltd, a company in the internet stock area, for the year ended 31/12/2000.

Trading and Profit and Loss Account for year ended 31/12/2000

	£	
Sales	885,000	
Cost of sales	(690,000)	
Total operating expenses for the year	(130,000)	
Interest for year	(15,000)	
Net Profit for year	50,000	
Proposed Dividends	(46,000)	
Retained profited for year	4,000	
Profit and Loss balance 1/1/2000	37,000	cr.
Profit and Loss balance 31/12/2000	41,000	

Ratios and Figures for year ended 31/12/1999

Gross profit %	25%
Interest cover	6 times
Quick ratio	1.3 to 1
Earnings per ord. share	15p
Return on capital employed	11.8%
Market value of ord. share	£2.15

Balance Sheet as at 31/12/2000

Intangible Assets	145,000	
Fixed Assets	430,000	575,000
Current Assets (including stock £47,000)	95,000	
Creditors trade	(33,000)	
Proposed Dividends	(46,000)	16,000
		591,000
10% Debentures (2004/2005)		150,000
Issued Capital		
350,000 Ordinary Shares @ £1 each	350,000	
50,000 8% Preference Shares @ £1 each	50,000	
Profit and Loss Balance	41,000	441,000
		591,000
Market value of one Ordinary Share		£2

You are required to:

(a) Calculate the following for the year 2000:
1. Interest cover
2. Earnings per share
3. The opening stock if the rate of stock turnover is 15 times (based on average stock).
4. How long it would take one ordinary share to recoup (recover) its market price (assume current performance is maintained) (45)
5. Dividend yield of ordinary shares

(b) Consider whether the debenture holders would be satisfied with the policy and state of affairs of the above company. Use available relevant information to support your answer. (45)

(c) Give five possible causes for the difference in gross profit % between 1999 and this year. (10)

(100 marks)

6. **<u>Service Firm</u>**

Included in the assets and liabilities of the "Young at Heart" Health Farm Ltd on 1/1/2000 were the following: Buildings and Grounds at cost £440,000; Equipment at cost £110,000; Furniture at cost £22,000; Stock of health food £1,200; Heating oil £880; Contract Cleaning prepaid £900; Creditors for supplies £1,300; Authorised Capital £500,000; Issued Capital £380,000; Investments £60,000; Customers' advance deposits £7,000. All fixed assets have 3 years accumulated depreciation on 1/1/2000.

Receipts and Payments Account of Young at Heart Health Farm Ltd for the year ended 31/12/2000

Receipts	**£**	**Payments**	**£**
Current a/c balance	3,480	Wages and salaries	94,150
Customers' fees	194,100	Insurance	5,600
Donations	15,000	Light and heat	3,400
Dividends	2,250	Purchases - shop	38,200
Shop receipts	72,000	Purchases - supplies	40,200
Balance	21,760	Laundry	5,400
		New extension	60,000
		Cleaning	3,300
		Telephone and postage	1,940
		Equipment	10,000
		Repayment of £40,000 loan on 1/5/2000 with 16 months interest	46,400
	£308,590		£308,590

You are given the following additional information and instructions:

1. Closing stock at 31/12/2000: Shop £1,620; Heating Oil £400; Electricity due 31/12/2000 £320.
2. Cleaning is done by contract payable monthly in advance and includes a payment of £300 for January 2001
3. Customers' fees include fees for 2001 of £3,000 and customers' fees in arrears at 31/12/2000 amounted to £550.
4. Wages and salaries include £12,000 per annum paid to the receptionist who also runs the shop. It is estimated that 40% of this salary is attributable to the shop.
5. " Young at Heart" Health Farm decided to re-value buildings and grounds at £550,000 on 31/12/2000.
6. Depreciation to be provided as follows:
   - Buildings - 2% of cost for a full year
   - Equipment - 20% of cost per annum
   - Furniture - 20% of cost per annum
7. Creditors for supplies at 31/12/2000 were £1,250

You are required to:

(a) Calculate the company's reserves on 1/1/2000. (20)
(b) Calculate the Profit/Loss for the health shop for the year ended 31/12/2000. (12)
(c) Prepare a Profit and Loss Account for the year ended 31/12/2000. (36)
(d) Prepare a Balance Sheet on 31/12/2000. (32)

(100 marks)

7. Incomplete records

J. Quaid lodged £260,000 to a business bank account on 1/1/2000 and on the same day purchased a business for £180,000, consisting of the following tangible assets and liabilities: buildings £175,000, stock £14,500, three months rates prepaid £800, debtors £24,500, wages due £4,800 and trade creditors £38,000.

Quaid did not keep a full set of books during 2000 but estimates that the gross profit was 40% of sales and was able to supply the following additional information on 31/12/2000:

(i) Each week Quaid took from stock goods to the value of £90 and cash £120 for household expenses.

(ii) On 1/10/2000 Quaid borrowed £150,000, part of which was used to purchase an adjoining premises costing £120,000. It was agreed that Quaid would pay interest on the last day of the month at the rate of 9% per annum. The capital sum was to be repaid in one lump sum in the year 2009 and to provide for this the bank was instructed to transfer £1,200 on the last day of every month from Quaid's business account into an investment fund.

(iii) During the year, Quaid lodged dividends £2,000 to the business bank account and made the following payments: light and heat £6,600, interest £2,250, wages and general expenses £68,000, equipment £12,000, rates for twelve months £3,600 and college fees £4,000.

(iv) Quaid estimated that 20% of the following: equipment, light and heat ***used*** and interest ***payable*** should be attributed to the private section of the premises. Quaid further estimates that 70% of college fees should be attributed to a family member and the remainder to an employee.

(v) Included in the assets and liabilities of the firm on 31/12/2000 were stock £18,400, debtors £21,600, trade creditors £19,700, cash at bank £87,670, electricity due £660 and £65 interest earned by the investment fund to date.

You are required to prepare, with workings, a:

(a) Statement/Balance Sheet showing Quaid's profit or loss for the year ended 31/12/2000. (50)

(b) Trading, Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2000. (40)

(c) Summary of the advice you would give Quaid. (10)

(100 marks)

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

8. Marginal Costing

Quigley Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2000, during which 70,000 units were produced and sold, was as follows:

		£
Sales (70,000 units)		910,000
Materials	315,000	
Direct labour	175,000	
Factory overheads	63,000	
Administration expenses	105,000	
Selling expenses	85,000	743,000
Net profit		167,000

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 in 2001 if the company is to increase its net profit by 20% over the 2000 figure, assuming the selling price and cost levels and percentages remain unchanged.

(c) The profit the company would make in 2001 if it reduced its selling price to £12, increased fixed costs by £11,000 and thereby increased the number of units sold to 85,000, with all other cost levels and percentages remaining unchanged.

(d) The selling price the company must charge per unit in 2001, if fixed costs are increased by 10% but the volume of sales and the profit remain the same.

(e) The number of units that must be sold at £14 per unit to provide a profit of 10% of the sales revenue received from these same units. **(80 marks)**

9. <u>Budgeting</u>

Quinlan Ltd has recently completed its sales forecasts for the year to 31 December 2001.
It expects to sell two products - Primary at £190 and Superb at £230**.**

All stocks are to be reduced by 20% from their opening levels by the end of 2001 and are valued using the FIFO method.

	Primary	**Superb**
Sales demand is expected to be:	6,000 units	4,500 units

Stocks of finished goods on 1 January 2001 are expected to be:

Primary	350 units @ £160.00 each
Superb	250 units @ £180.00 each

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

	Primary	**Superb**
Material W	6 kgs	5 kgs
Material X	4 kgs	7 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 1 January 2001 are expected to be:

Material W	5,000 kgs @ £2.50 per kg
Material X	4,000 kgs @ £4.50 per kg

The expected prices for raw materials during 2001 are:

Material W	£3 per kg
Material X	£5 per kg

The skilled labour rate is expected to be £11.00 per hour**.**

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

Variable	£4.50 per skilled labour <u>hour</u>
Fixed	£116,000 per annum

You are required to prepare, for the year to 31 December 2001, Quinlan Ltd's

(a) Production Budget (in units);
(b) Raw Material Purchases Budget (in units and £);
(c) Production Cost /Manufacturing Budget;
(d) Budgeted Trading Account ***(if the budgeted cost of a unit of Primary and Superb is £157 and £186 respectively).***

(80 marks)