LEAVING CERTIFICATE EXAMINATION, 2002

ACCOUNTING - HIGHER LEVEL

(400 marks)

THURSDAY, 13TH JUNE 2002 - 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

Turner Ltd. has an Authorised Capital of €940,000 divided into 540,000 Ordinary Shares at €1 each and 400,000 6% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2001.

	€	€
Delivery vans at cost	168,000	
Accumulated depreciation - Delivery vans		64,000
Land and buildings at cost	850,000	
Accumulated depreciation - Land and buildings		76,000
Patents (incorporating 3 months investment income received)	67,000	
8 % Investments 1/5/2001	150,000	
Stocks 1/1/2001	61,000	
Purchases and Sales	510,000	830,000
Directors' fees	62,000	
Salaries and general expenses	155,000	
Debenture interest paid for first 3 months of year	3,000	
Debtors and Creditors	70,900	85,000
Provision for bad debts		2,600
Interim dividends for first 6 months	32,000	
Profit and loss balance 1/1/2001		50,400
8 % Debentures (including 90,000 8% debentures issued at par on 31/3/2001)		240,000
VAT		13,500
Bank		7,400
Issued capital		
460,000 Ordinary shares at €1each		460,000
300,000 6% Preference shares		300,000
	2,128,900	2,128,900

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

(i) Stock at 31/12/2001 at cost was €66,000 - this figure includes old stock which cost €7,000 but has a net realisable value of 70% of cost.

(ii) The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2001 has arrived showing a credit balance of €430. A comparison of the bank account and the bank statement has revealed the following discrepancies:
1. Investment income €4,000 had been paid direct to the firm's bank account.
2. A cheque for €960, issued to a supplier, had been entered in the books (cash book and ledger) as €690.
3. A credit transfer of €600 had been paid direct to the firm's bank account on behalf of a bankrupt debtor. This represents a first and final payment of 20c in the €1.
4 A cheque issued for €3,500 to a director had not yet been presented for payment.

(iii) Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale. NOTE: On 31/5/2001 a delivery van which had cost €50,000 on 1/6/1998, was traded against a new van which cost €74,000. An allowance of €24,000 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) Buildings are to be depreciated at the rate of 2% of cost per annum (land at cost was €350,000). At the end of 2001 the company re-valued the land and buildings at €950,000.

(v) Patents, which incorporated 3 months investment income, are to be written off over a 5 year period commencing in 2001.

(vi) Provision be made for both investment income and debenture interest due.

(vii) Provision for bad debts be adjusted to 5% of debtors.

(viii) 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 8c per share.

You are required to prepare:

(a) A Trading, Profit and Loss account for the year ended 31/12/2001. (75)

(b) A Balance Sheet as at 31/12/2001. (45)

(120 marks)

2. Depreciation of Fixed Assets

Trench Transport Ltd prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/2000 Trench Transport Ltd owned the following vehicles:
No 1 purchased on 1/1/1996 for €66,000
No 2 purchased on 1/9/1997 for €72,000
No 3 purchased on 1/3/1998 for €78,000

On 1/4/2000 Vehicle No 3 was crashed and traded in against a new vehicle costing € 96,000. The company received compensation to the value of €28,000 and the cheque paid for the new vehicle was €57,000.
On 1/8/2001 Vehicle No 1 was traded in for €12,000 against a new vehicle costing €90,000. Vehicle No 1 had a refrigeration unit fitted on 1/1/1998 costing €16,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2000 and 2001:

(a) The Vehicles Account	(8)
(b) The Provision for Depreciation Account	(36)
(c) The Vehicles Disposal Account.	(16)
	(60 marks)

3. Correction of errors and suspense account

The Trial Balance of J. Townsend, a garage owner, failed to agree on 31/12/2001. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €29,000.

On checking the books, the following errors <u>and omissions</u> were discovered:

(i) A motor car, purchased on credit from M. Browne, for €12,000, had been entered on the incorrect side of Browne's account and credited as €21,000 in the equipment account.

(ii) Car parts, previously sold on credit for €850, had been returned to Townsend. These <u>returns</u> had been incorrectly entered as €50 on the credit of the equipment account and as €580 on the debit of the purchases account.

(iii) A cheque for €3,000, paid by Townsend out of private bank account for 15 months rent of garage up to 31/3/2002, had not been entered in the books.

(iv) Townsend had returned a motor car, previously purchased on credit from a supplier for €10,500, and had entered this transaction in the relevant ledger accounts incorrectly as €15,100. However, a credit note subsequently arrived from the supplier showing a restocking charge of €400 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €10,100 in the creditor's account.

(v) €1,400 received from the sale of an old display cabinet (book value €1,200), which was used by Townsend to store private materials, 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.	(20)
		(60 marks)

4. Tabular Statement

The financial position of Tobin Ltd on 1/1/2001 is shown in the following Balance Sheet:

Balance Sheet as at 1/1/2001

	Cost	Dep to date	Net
Fixed Assets	**€**	**€**	**€**
Goodwill (cost €24,000)			16,000
Land & buildings	440,000	44,000	396,000
Equipment	10,000	4,000	6,000
Delivery vans	70,000	28,000	42,000
	520,000	76,000	460,000
Current Assets			
Stock	91,400		
Insurance prepaid	1,200		
Debtors	61,000	153,600	
Less Creditors: amount falling due within 1 year			
Creditors	69,300		
Bank	11,600		
Wages due	2,700	83,600	
Net Current Assets			70,000
			530,000
Financed by			
Capital and Reserves			
Authorised - 550,000 Ordinary shares @ €1 each			
Issued - 400,000 Ordinary shares @ €1 each		400,000	
Share premium		35,000	
Profit and loss balance		95,000	530,000

The following transactions took place during 2001:

Jan — Tobin Ltd decided to re-value the land and buildings on 1/1/2001 at €650,000 which includes land now valued at €120,000.

Feb — A creditor who was owed €1,800 by Tobin Ltd accepted equipment, the book value of which was €1,000, in full settlement of the debt. This equipment had cost €2,000.

March — Received a bank statement on March 31 showing a direct debit of €2,400 to cover fire insurance for year ended 31/3/2002.

April — A payment of €900 was received from a debtor whose debt had been previously written off and who now wishes to trade with Tobin Ltd again. This represents 30% of the original debt and the debtor had guaranteed to pay the remainder of the debt in January 2002.

May — Tobin Ltd bought an adjoining business on 1/5/2001 which included buildings €150,000, delivery vans €75,000 and creditors €45,000. The purchase price was discharged by granting the seller 150,000 shares in Tobin Ltd at a premium 25c per share.

June — An interim dividend of 5c per share was paid on all paid up shares.

July — A delivery van which cost €16,000 was traded-in against a new van costing €22,000. An allowance of €7,500 was made for the old van. Depreciation to date on the old van was €8,200.

Dec — The buildings depreciation charge for the year is to be 2% of book value. The depreciation charge to be calculated from date of valuation and date of purchase. The total depreciation charge for the year on Delivery Vans was €16,000.

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 31/12/2001.

(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 Twomey Ltd, a manufacturer, in the dairy industry, for the year ended 31 December 2001.

Trading and Profit and Loss account for year ended 31/12/2001

	€
Sales	950,000
Costs of goods sold	(570,000)
Total operating expenses for the year	(210,000)
Interest for year	(12,000)
Net Profit for year	158,000
Proposed dividends	(88,000)
Retained profits for year	70,000

Ratios and figures for year ended 31/12/2000

Earnings per share	26c
Dividend per ordinary share	2.6c
Quick ratio	0.8 to 1
Market value of ordinary share	€1.95
Return on capital employed	17%
Return on equity funds	6.1%
Interest cover	11 times
Gearing	36%

Balance Sheet as at 31/12/2001

Intangible Assets	120,000	
Fixed Assets	700,000	820,000
Current assets (including debtors €98,000, stocks €42,000)	170,000	
Current Liabilities		
Trade creditors	(32,000)	
Proposed dividends	(88,000)	50,000
		870,000
12% Debentures 2007/2008		100,000
Issued capital		
450,000 Ordinary shares @ €1 each	450,000	
200,000 12% preference shares @ €1 ea.	200,000	
Profit and Loss Balance	120,000	770,000
		870,000
Market Value of one Ordinary Share		€2.04

You are required to calculate the following for the year 2001:

(a)
1. Cash sales if the average period of credit given to debtors is 2 months.
2. Earnings per share.
3. Price Earnings Ratio.
4. How long it would take one ordinary share to recoup (recover) its market value based on present dividend pay out rate.
5. The ordinary dividend cover. (45)

(b) A friend of yours has been given the opportunity to buy ordinary shares in Twomey Ltd but before doing so asks your opinion. What advice would you give? Use ratios, percentages and any other information from the above to support your conclusions. (55)

(100 marks)

6. Published Accounts

The following is the trial balance of Thompson Plc as at 31/12/2001

	Dr €	Cr €
Fixed asset investments	300,000	
Patent at 1/1/2001	168,000	
Building - cost at 1/1/2001	700,000	
Building - accumulated depreciation at 1/1/2001		48,000
Stock at 1/1/2001	650,000	
Debtors and Creditors	139,000	241,000
8% Debentures 2005/2006		400,000
Purchases and Sales	6,150,000	7,988,000
Distribution costs	610,000	
Administration expenses	742,000	
Rental income		52,000
Provision for bad debts		23,000
Debenture interest paid	12,000	
Interim dividends	24,000	
Profit on the sale of land		80,000
Bank	179,000	
VAT		82,000
Authorised and issued share capital:		
Ordinary shares @ €1 each		400,000
7% Preference shares @ €1 each		300,000
Profit and loss at 1/1/2001		60,000
	9,674,000	9,674,000

The following additional information is provided:

(i) Stock at 31/12/2001 is €690,000.

(ii) Depreciation is to be provided for as follows:
Building 2% straight line (There were no purchases or sales of buildings during the year).
During the year land adjacent to the company's building which had cost €55,000 was sold for €135,000.
At the end of the year the company re-valued its building at €750,000. The company wishes to incorporate this value in this year's accounts.

(iii) Provision is to be made for:
Directors' remuneration €80,000
Auditors' remuneration €9,000
Corporation tax €170,000
Debenture interest due at 31/12/2001

(iv) The patent was acquired on 1/1/1998 for €240,000. It is being amortised over 10 years in equal instalments. The amortisation should be included in cost of sales.

(v) On 1 July 2001 interim dividends of €10,500 and €13,500 were paid to the ordinary and preference shareholders respectively. The directors propose the payment of the preference dividend due and a final dividend on ordinary shares of 6c per share.

(vi) The fixed asset investments are in listed companies. The market value of these investments at 31/12/2001 was €480,000. There were no purchases or sales of investments during the year.

(vii) The debentures are secured by a fixed charge over the company's tangible fixed assets.

(viii) On 12/12/2001 the company received a letter from a former employee who was dismissed on 1/10/2001. The employee is claiming compensation for unlawful dismissal. The company's legal advisers believe that the company is unlikely to be liable under the terms of the employment contract and they estimate the maximum amount of the liability will be legal costs of €25,000.

You are required:

(a) To prepare the published profit and loss account for the year ended 31/12/2001 and a balance sheet as at that date in accordance with the Companies Acts and latest accounting standards showing the following notes:
1. Accounting policy note for tangible fixed assets and stock.
2. Operating profit
3. Contingent liabilities
4. Dividends
5. Tangible fixed assets (85)

(b) State the difference between an Auditor's Qualified and Unqualified Report. (15)

(100 marks)

7. Club Accounts

Included among the assets and liabilities of the All Stars Tennis Club on 1/1/2001 were the following:

Clubhouse & Courts €520,000, Bar Stock €2,100, Equipment (at cost) €11,200, Life Membership €24,000, Bar Debtors €90, Bar Creditors €1,250, Subscriptions prepaid €600, 8% Government Investments €25,000, Investment interest due €500, Levy Reserve Fund €20,000, Wages due €900.

The Club Treasurer has supplied the following account of the Club's activities during the year ended 31/12/2001:

Receipts	**€**	**Payments**	**€**
Bank Current Account	3,950	Bar Purchases	71,500
Investments income	1,500	Sundry Expenses	83,620
Entrance fees	16,000	Catering Costs	2,480
Catering Receipts	5,250	Equipment	12,500
Annual Sponsorship	36,000	Coaching lessons	4,650
Subscriptions	96,600	Repayment of €12,000 loan on	
Bar Receipts	104,440	31/12/2001 together with 1¼ years' interest	13,500
		Transfer to Building Society 31/12/2001	45,000
		Balance	30,490
	€263,740		€263,740

You are given the following additional information and instructions:

1. Bar stock on 31/12/2001 was €2,300.
2. Equipment owned on 31/12/2001 is to be depreciated at the rate of 20% of cost
3. Clubhouse and courts to be depreciated by 2% of cost.
4. Bar debtors and bar creditors on 31/12/2001 were €140 and €1,980 respectively.
5. Subscriptions include
   - 2 life memberships of €4,000 each.
   - Subscriptions for 2002 amounting to €1,500
   - Levy for 2001 of €100 on 200 members
   - Levy of €100 on 12 members for 2000
6. Life membership was to be written off over a ten year period commencing in 2001.

You are required to:

(a) Show the Club's Accumulated Fund (Capital) on 1/1/2001. (30)

(b) Show the Income and Expenditure Account for the year ended 31/12/2001. (35)

(c) Show the Club's Balance Sheet at 31/12/2001. (20)

(d) Indicate the points you, as Treasurer, would make to a proposal by the members at the AGM to reduce subscriptions by 10%. (15)

(100 marks)

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

8. Job Costing

There are three departments in Timmons Ltd. – manufacturing, polishing and packing.
For the year 2002 the following are the budgeted costs.

	Total	**Manufacturing**	**Polishing**	**Packing**
	€	€	€	€
Indirect Materials	180,000	110,000	40,000	30,000
Indirect Labour	240,000	120,000	70,000	50,000
Light and heat	48,000			
Rent and rates	27,000			
Machine maintenance	16,000			
Plant depreciation	80,000			
Factory canteen	35,000			

The following information relates to the 3 departments.

	Total	**Manufacturing**	**Polishing**	**Packing**
Floor space in square metres	9,000	4,000	3,000	2,000
Volume in cubic metres	24,000	12,000	8,000	4,000
Plant valuation in € at book value	400,000	240,000	100,000	60,000
Machine hours	60,000	30,000	15,000	15,000
Number of employees	70	30	30	10
Labour hours	160,000	80,000	60,000	20,000

Job No 999 has just been completed. The details are:

	Direct Material	**Direct Labour**	**Machine Hours**	**Labour Hours**
Manufacturing	€7,500	€850	50	20
Polishing	€2,800	€3,900	15	90
Packing	-	€1,500	6	25

The company budgets for a profit margin of 20% of Sales.

You are required to:

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

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

(c) Compute the selling price of Job No 999.

(80 marks)

9. Cash Budgeting

O'Toole had the following Assets and Liabilities at 1st Jan 2002

	€	€
Assets		
Stock	47,250	
Debtors	8,000	
Cash	1,500	
Rates prepaid (3 months)	600	57,350
Liabilities		
Capital		57,350

O'Toole expects the sales for the next 7 months will be as follows:

Jan	**Feb**	**March**	**April**	**May**	**June**	**July**
€63,000	€81,000	€75,000	€69,000	€72,000	€75,000	€87,000

(i) 80% of sales are for cash and 20% are on credit, collected one month after sale.

(ii) Gross profit as percentage of sales is 25%.

(iii) O'Toole wishes to keep a minimum cash balance of €6,000 at the end of each month.

(iv) All borrowings are in multiples of a thousand euro and interest is at the rate of 10% per annum.

(v) Purchases each month should be sufficient to cover the following month's sales.

(vi) Purchases are paid for by the end of the month.

(vii) Purchased machine on Feb 1 for €12,000 (Depreciation 15% per annum on cost).

(viii) O'Toole rents the premises for €24,000 per annum payable each month.

(ix) Wages amounting to €12,500 are paid each month.

(x) Purchased for cash on 1 April a computer for €2,200 (Depreciation of 20% per annum on cost).

(xi) Rates paid for 6 months from 1 April were €2,400 (paid in April).

(xii) One quarter of the money borrowed on 31/1/2002 is to be repaid at the end of June together with interest to date on the repaid amount.

You are required to prepare a:

(a) Cash budget for the six month period from January to June.

(b) Budgeted Profit and Loss (Pro-forma income statement) for the six months ended 30/6/2002.

(80 marks)