Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2003

ACCOUNTING - HIGHER LEVEL

(400 marks)

THURSDAY, 12TH JUNE 2003 - 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. Sole Trader - Final Accounts

The following trial balance was extracted from the books of M. O'Brien on 31/12/2002.

	€	€
9% Investments 1/6/2002	200,000	
Buildings (cost €980,000)	933,000	
Delivery vans (cost €150,000)	80,500	
5% Fixed Mortgage (including increase of €200,000 5% mortgage received on 1/4/2002)		500,000
Patents (incorporating 3 months investment income)	55,500	
Debtors and Creditors	77,600	86,500
Purchases and Sales	668,000	982,000
Stocks 1/1/2002	67,700	
Commission	24,000	
Provision for Bad Debts		3,800
Salaries and General Expenses	194,100	
Discount (net)		4,600
Rent		15,000
Mortgage Interest paid for first 3 months	4,000	
Insurance (incorporating suspense)	8,700	
V.A.T		5,500
PRSI		2,300
Bank		70,900
Drawings	37,500	
Capital		680,000
	2,350,600	2,350,600

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

(i) Stock at 31/12/2002 at cost was €74,500. This figure includes damaged stock which cost €6,600 but which now has a net realisable value of €1,900.

(ii) Provide for depreciation on vans at the annual rate of 15% of cost from the date of purchase to the date of sale.
NOTE: On 31/3/2002 a delivery van which had cost €42,000 on 31/5/1999 was traded against a new van which cost €48,000. An allowance of €20,000 was made 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.

(iii) Patents, which incorporate 3 months investment income, are to be written off over a 5 year period commencing in 2002.

(iv) The suspense figure arises as a result of the posting of an incorrect figure for mortgage interest to the mortgage interest account and discount received €700 entered only in the creditors account. The correct interest was entered in the bank account.

(v) Provision to be made for mortgage interest due.

(vi) A new warehouse was purchased during the year for €240,000 plus VAT 12.5%. The amount paid to the vendor was entered in the Buildings account. No entry was made in the VAT account.

(vii) Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to re-value the buildings at €1,100,000 on 31/12/2002.

(viii) Provision for bad debts to be adjusted to 4% of debtors.

You are required to prepare a:

(a) Trading and profit and loss account for the year ended 31/12/2002. (75)

(b) Balance sheet as at 31/12/2002. (45)

(120 marks)

2. **Published accounts**

Oatfield Plc. has an Authorised Capital of €900,000 divided into 700,000 Ordinary Shares at €1 each and 200,000 8% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2002.

	€	€
Patent	56,000	
9% Investments 1/1/2002	120,000	
Land and buildings (re-valued on 1/7/2002)	880,000	
Revaluation reserve		260,000
Delivery vans at cost	145,000	
Delivery vans - accumulated depreciation on 1/1/2002		68,000
Debtors and Creditors	187,000	98,000
Purchases and Sales	696,000	1,105,000
Stocks 1/1/2002	75,000	
Directors' Fees	84,000	
Salaries and General Expenses	177,000	
Discount		6,160
Advertising	21,000	
Investment Income		8,100
Profit on sale of Land		85,000
Rent	32,000	
Interim dividends for first 6 months	27,000	
Profit and Loss Balance 1/1/2002		73,700
8 % Debentures (2008/2009) including €120,000 8% Debentures issued on 1/8/2002		270,000
Bank		17,740
VAT		8,300
Issued Capital		
350,000 Ordinary Shares at €1 each		350,000
150,000 8% Preference Shares		150,000
	2,500,000	2,500,000

The following information is also relevant:

(i) Stock on 31/12/2002 was valued on a first in first out basis at €77,000.

(ii) The patent was acquired on 1/1/1999 for €80,000. It is being amortised over 10 years in equal instalments. The amortisation should be included in cost of sales.

(iii) On 1/7/2002 the ordinary shareholders received an interim dividend of €21,000 and the preference shareholders received €6,000. The directors propose the payment of the preference dividend due and a final dividend on ordinary shares bringing the total ordinary dividend up to 16c per share for the year.

(iv) On 1/7/2002 land, which had cost €90,000, was sold for €175,000. On this date the remaining land and buildings were re-valued at €880,000. Included in this revaluation is land now valued at €180,000 but which originally cost €70,000. The re-valued buildings had cost €550,000.

(v) Depreciation is to be provided as follows:
Delivery vans at the rate of 20% of cost
Buildings at the rate of 2% of cost per annum until date of revaluation and thereafter at 2% per annum of re-valued figure.

(vi) Provide for debenture interest due, investment income due, auditors fees €7,700 and taxation €33,000.

You are required to:

(a) Prepare the published profit and loss account for the year ended 31/12/2002 in accordance with the Companies Acts and financial reporting standards showing the following notes:
1. Accounting policy note for stock and depreciation
2. Dividends
3. Interest payable
4. Operating profit
5. Profit on sale of property (50)

(b) Name the agencies that regulate the production, content and presentation of company financial statements. (10)

(60 marks)

3. **<u>Debtors Control Account</u>**

The Debtors Ledger Control Account of T. O'Dowd showed the following balances - €33,444dr and €633cr on 31/12/2002. 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) A cheque for €850, received from a customer in full settlement of a debt of €880, had been entered correctly in the books. However, this cheque was dishonoured but no entry had been made in the books relating to the cancelled cheque.
(ii) Cash sales €1,800 and credit sales €800 had both been entered by O'Dowd on the credit of a customer's account.
(iii) O'Dowd had sent an invoice to a customer for €1,680. This had been entered in the appropriate day book as €1,860. However when posting from this book to the ledger no entry had been made in the customer account.
(iv) A credit note was sent to a customer for €566. The only entry made in the books was €56 debited to the customer's account.
(v) O'Dowd had charged a customer interest amounting to €82 on an overdue account. The only entry in the books for this interest had been €28 credited to the customer's account. After a protest this interest was reduced to €20 but this reduction had not been reflected in the accounts.
(vi) O'Dowd had accepted sales returns €400 from a customer and entered this correctly in the books. However, a credit note was sent out by the secretary showing a restocking charge of 10% of sales price. The secretary made the necessary adjustment only in the customer's account. Later this charge was reduced to 6% but this reduction was not reflected in the accounts.

You are required to show the following:

(a) Adjusted Debtors' Ledger Control Account. (35)
(b) Adjusted Schedule of Debtors' showing the original balance. (25)

(60 marks)

4. **<u>Revaluation of Fixed Assets</u>**

On 1 January 1998 O'Flynn Ltd owned property which cost €630,000, consisting of Land €210,000 and Buildings €420,000. The company depreciates its assets at the rate of 2% using the 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 property had been purchased ten years earlier and depreciation had been charged against profits in each of these ten years (Land is not depreciated).

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

Jan 1 1998 Revalued property at €750,000. Of this revaluation €250,000 was attributable to land.

Jan 1 1999 Sold for €320,000 land which cost €210,000 but was since revalued on 1/1/1998.

Jan 1 2000 Purchased buildings for €340,000. During the year 2000, €80,000 was paid to a building contractor for an extension to these recently purchased buildings. The company's own employees also worked on the extension and they were paid wages amounting to €30,000 by O'Flynn Ltd for this work.

Jan 1 2001 Revalued buildings owned at €1,045,000 (a 10% increase in respect of each building).

Jan 1 2002 Sold for €590,000 the buildings owned on 1/1/1998. The remaining buildings were revalued at €620,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the five years to 31 December 2002.
(Bank Account and Profit and Loss Account <u>not</u> required)

(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 O'Gara Plc., a manufacturer in the healthcare industry, for the year ended 31 December 2002.

Trading and Profit and Loss account for year ended 31/12/2002

	€
Sales	980,000
Costs of goods sold	(620,000)
Total operating expenses for year	(207,000)
Interest for year	(10,000)
Net profit for year	143,000
Proposed dividends	(68,000)
Retained profit for year	75,000

Ratios and figures for year ended 31/12/2001

Earnings per ordinary share	18c
Dividend per ordinary share	6.5c
Quick ratio	0.75 to 1
Market price of ordinary share	€1.90
Return on capital employed	14%
Return on equity funds	7.6%
Interest cover	9 times
Gearing	35%

Balance Sheet as at 31/12/2002

Intangible Assets	160,000	
Tangible assets	790,000	950,000
Current assets (including stock €66,000, debtors €74,000)		160,000
Trade creditors		(73,000)
Dividends		(68,000)
		969,000
10% Debentures 2008/2009		100,000
Issued capital		
650,000 Ordinary shares @ €1 each		650,000
100,000 13% Preference shares @ €1 each		100,000
Profit and loss balance		119,000
		969,000

You are required to:

(a) Calculate the following for 2002:
   (i) Cash sales if the average period of credit to debtors is 1 month.
   (ii) Earnings per share.
   (iii) The market price of one ordinary share if the Price Earnings ratio is 11.
   (iv) The ordinary dividend cover.
   (v) The dividend yield. (50)

(b) A friend of yours has been given the opportunity to buy ordinary shares in O'Gara Plc but before doing so asks your opinion. What advice would you give? Use ratios, percentages and other information from the above to support your conclusions.
(50)
(100 marks)

6. Service Company Accounts

Included in the assets and liabilities of the Slimline Health Centre Ltd on 1/1/2002 were the following:

Buildings and Grounds at cost €520,000; Equipment at cost €90,000; Furniture at cost €25,000; Stock of health food for sale €1,500; Heating oil €660; Contract cleaning prepaid €300; Creditors for supplies to health centre €1,450; Clients' Fees paid in Advance €5,500, Investments €80,000; Authorised Capital, €450,000; Issued Capital €320,000;

All fixed assets have 3 years accumulated depreciation on 1/1/2002.

Receipts and Payments Account of Slimline Health Centre Ltd for the year ended 31/12/2002

Receipts	**€**	**Payments**	**€**
Current a/c balance	7,560	Wages and salaries	88,240
Client's fees	262,600	Insurance	6,300
Interest	2,160	Light and heat	2,900
Shop receipts	67,000	Purchases - shop	41,300
Balance	9,500	Purchases - supplies	38,600
		Laundry	4,100
		New extension 1/1/2002	80,000
		Contract Cleaning	2,700
		Telephone and postage	1,880
		Equipment	16,000
		Repayment of €60,000 loan on 1/6/2002 with **17 months** interest	66,800
	€348,820		€348,820

You are given the following additional information and instructions:

1. Closing stock at 31/12/2002: Shop €1,800; Heating Oil €360; Electricity due 31/12/2002 €290.
2. Cleaning is done by contract payable monthly in advance and includes a payment of €400 for January 2003.
3. Clients' fees include fees for 2003 of €4,000.
4. Clients' fees in arrears at 31/12/2002 €650.
5. Wages and salaries include €16,000 per annum paid to the receptionist who also runs the shop. It is estimated that 60% of this salary and €220 of the light and heat, €600 of the insurance and €360 of the telephone is attributable to the shop.
6. Slimline Health Centre Ltd decided to re-value buildings and grounds at €700,000 on 31/12/2002.
7. 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.
8. Creditors for supplies to health centre at 31/12/2002 €1,600.

You are required to:

(a) Calculate the company's reserves on 1/1/2002. (20)

(b) Calculate the Profit/loss from the health shop for the year ended 31/12/2002. (12)

(c) Prepare a Profit and Loss Account for the year ended 31/12/2002. (36)

(d) Prepare a Balance Sheet on 31/12/2002. (32)

(100 marks)

7. Incomplete records

J. O'Higgins lodged €350,000 to a business bank account on 1/1/2002 and on the same day purchased a business for €320,000, including the following assets and liabilities: buildings €290,000, stock €16,700, three months rates prepaid €2,400, debtors €32,500, wages due €3,600 and trade creditors €58,000.

O'Higgins did not keep a full set of books during 2002 but estimates that the gross profit was 40% of sales and he was able to supply the following additional information on 31/12/2002:

(i) Each week O'Higgins took from stock goods to the value of €100 and cash €150 for household expenses.

(ii) On 1/10/2002 O'Higgins borrowed €300,000, part of which was used to purchase an adjoining premises costing €250,000. It was agreed that O'Higgins would pay interest on the last day of the month at the rate of 6% per annum. The capital sum was to be repaid in one lump sum in the year 2010 and, to provide for this, the bank was instructed to transfer €2,500 on the last day of every month from O'Higgins's business account into an investment fund.

(iii) During the year, O'Higgins lodged dividends €2,500 to the business bank account and made the following payments: light and heat €7,200, interest €3,000, wages and general expenses €98,000, equipment €16,000, rates for twelve months €10,800 and college fees €4,500.

(iv) O'Higgins estimated that 25% of the following: equipment, light and heat ***used*** and interest ***payable*** should be attributed to the private section of the premises. O'Higgins 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 31/12/2002 were stock €17,200, debtors €34,300, trade creditors €29,900, cash at bank €68,462, electricity due €560 and €75 interest earned by the investment fund to date.

You are required to prepare, with workings, a:

(a) Statement/Balance Sheet showing O'Higgins's profit or loss for the year ended 31/12/2002. (50)

(b) Trading, Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2002. (40)

(c) Summary of the advice you would give to O`Higgins in relation to the information given above. (10)

(100 marks)

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

Question 8. - Costing

(a) **Valuation of Closing Stock**

The following information relates to the purchases and sales (exclusive of VAT) of O'Leary Ltd. for the year 2002:

Period	Details	Quantity and Price
01/01/02 to 31/03/02	Purchases on credit	4,200 @ €7 each
	Credit sales	1,300 @ €12 each
	Cash sales	1,200 @ €11 each
01/04/02 to 30/06/02	Purchases on credit	3,200 @ €7 each
	Credit sales	1,350 @ €12 each
	Cash sales	1,500 @ €12 each
01/07/02 to 30/09/02	Purchases on credit	2,700 @ €8 each
	Credit sales	1,400 @ €13 each
	Cash sales	1,200 @ €11 each
01/10/02 to 31/12/02	Purchases on credit	2,300 @ €9 each
	Credit sales	1,600 @ €13 each
	Cash sales	900 @ €13 each

On 1/1/2002 there was an opening stock of 4,400 units @ €7 each.

You are required to:

(i) Calculate the value of the closing stock, using first in first out (FIFO) method.

(ii) Prepare a trading account for the year ended 31/12/2002.

(b) **Product Costing**

O' Mahony Ltd is a small company with three departments. The following are the company's budgeted costs for the coming year.

Department	Variable Costs	Fixed Costs	Wage Rate per hour
X	€18 per hour	€8.50 per hour	€11
Y	€16 per hour	€7.50 per hour	€12
Z	€20 per hour	€4.00 per hour	€10

General administration overhead absorption rate per hour is budgeted to be €4.50.

The following are the specifications for a quotation for Job No. 999:
Material costs €6,450.
Labour hours required in each department are:

Department	Hours
X	90
Y	180
Z	50

You are required to:

(i) Calculate the selling price of Job No. 999 if the profit is set at 25% of selling price.

(ii) State two reasons for product costing and explain each.

(80 marks)

9. Flexible Budgeting

O'Reilly manufactures a component for the electronic industry. The following flexible budgets have already been prepared for 55%, 70% and 85% of the plant's capacity:

Output levels	**55%**	**70%**	**85%**
Units	11,000	14,000	17,000
Costs	**€**	**€**	**€**
Direct materials	143,000	182,000	221,000
Direct wages	99,000	126,000	153,000
Production overheads	74,000	92,000	110,000
Other overhead costs	36,000	45,000	54,000
Administration expenses	29,000	29,000	29,000
	381,000	474,000	567,000

Profit is budgeted to be 22% of sales.

You are required to

(a) (i) Classify the above costs into fixed, variable and mixed costs.

(ii) Separate production overheads into fixed and variable elements.

(iii) Separate other overhead costs into fixed and variable elements.

(iv) Prepare a flexible budget for 96% activity level.

(v) Restate the budget, using marginal costing principles, and show the contribution.

(b) Explain Principal Budget Factor. Why prepare a flexible budget and what does it show?

(80 marks)