Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2004

ACCOUNTING - HIGHER LEVEL

(400 marks)

THURSDAY, 17TH JUNE 2004 - 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

Carey Ltd. has an Authorised capital of €990,000 divided into 690,000 Ordinary shares at €1 each and 300,000 7% Preference shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2003.

	€	€
Land and building at cost	780,000	
Accumulated depreciation - Land and buildings		39,000
Patents (incorporating 2 months investment income received)	58,200	
6 % Investments 1/5/2003	180,000	
Delivery vans at cost	172,000	
Accumulated depreciation - Delivery vans		78,000
Stocks 1/1/2003	76,600	
Purchases and sales	620,000	990,000
Directors' fees	80,000	
Salaries and general expenses	176,000	
Debenture interest paid	4,500	
Profit and loss balance 1/1/2003		67,600
Debtors and Creditors	73,900	81,000
Provision for bad debts		3,600
Interim dividends for first 6 months	40,000	
9% Debentures (including €80,000 9% debentures issued at par on 31/3/2003)		230,000
VAT		16,500
Bank		5,500
Issued capital		
550,000 Ordinary shares at €1each		550,000
200,000 7% Preference shares €1each		200,000
	2,261,200	2,261,200

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

(i) Stock at 31/12/2003 at cost was €85,000 - this figure includes old stock which cost €8,000 but has a net realisable value of 60% of cost.

(ii) Patents, which incorporated 2 months investment income, are to be written off over a 5 year period commencing in 2003.

(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 31/9/2003 a delivery van, which had cost €60,000 on 1/6/2001, was traded in against a new van which cost €84,000. An allowance of €22,000 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 €130,000). At the end of 2003 the company re-valued the Land and buildings at €880,000.

(v) The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2003 has arrived showing a credit balance of €4040. A comparison of the bank account and the bank statement has revealed the following discrepancies:
   1. Investment income €2,700 had been paid direct to the firm's bank account.
   2. A cheque for €780, issued to a supplier, had been entered in the books (cash book and ledger) as €870.
   3. A credit transfer of €750 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 30c in the €1.
   4 A cheque for fees €6,000 issued to a director had not yet been presented for payment.

(vi) 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 9c per share.
   3. Provision be made for both Investment income and Debenture interest due.
   4. Provision for bad debts be adjusted to 4% of debtors.

You are required to prepare a:

(a) Trading and Profit and loss account, for the year ended 31/12/2003. (75)

(b) Balance sheet as at 31/12/2003. (45)

(120 marks)

2. Tabular Statement

The financial position of Casey Ltd on 1/1/2003 is shown in the following Balance sheet:

Balance sheet as at 1/1/2003

	Cost	**Dep. to date**	**Net**
Fixed Assets	**€**	**€**	**€**
Land & buildings	460,000	13,800	446,200
Delivery vans	76,000	33,000	43,000
	536,000	46,800	489,200
Current Assets			
Stock	59,800		
Insurance prepaid	1,500		
Debtors	61,700	123,000	
Less Creditors: amount falling due within 1 year			
Creditors	62,500		
Bank	10,100		
Wages due	2,400	75,000	
Net Current Assets			48,000
			537,200
Financed by			
Capital and reserves			
Authorised - 850,000 Ordinary shares @ €1 each			
Issued - 430,000 Ordinary shares @ €1 each			430,000
Share premium			40,000
Profit and loss balance			67,200
			537,200

The following transactions took place during 2003:

Jan	Casey Ltd decided to re-value the Land and buildings at €580,000 on 1/1/2003, which includes land now valued at €100,000.
Feb	On 1/02/03 Casey Ltd bought an adjoining business which included Buildings €360,000, Delivery vans €58,000, Stock €25,000 and Creditors €33,000. The purchase price was discharged by granting the seller 400,000 shares in Casey Ltd at a premium of 20p per share.
March	Goods, previously sold by Casey Ltd for £1,800, 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 10% of invoice price as a restocking charge.
April	A delivery van which cost €20,000 was traded-in against a new van costing €36,000. An allowance of €12,500 was made for the old van. Depreciation to date on the old van was €6,600.
May	Received a bank statement on May 31 showing a direct debit of €4,800 to cover fire insurance for year ended 31/5/2004.
July	A payment of €720 was received from a debtor whose debt had been previously written off and who now wishes to trade with Casey Ltd again. This represents 60% of the original debt and the debtor had undertaken to pay the remainder of the debt in January 2004.
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. The total depreciation charge on delivery vans for the year was €22,000.

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 31/12/2003.

(60 marks)

3. Revaluation of Fixed Assets

On 1 January 1999 Cavanagh Ltd owned freehold property and land which cost €740,000, consisting of Land €250,000 and Buildings €490,000. The company depreciates its buildings at the rate of 2% per annum using the straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no 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 1999	Re-valued property at €870,000. Of this revaluation €300,000 was attributable to land.
Jan 1 2000	Sold for €330,000 land which cost €250,000 but was since re-valued on 1/1/1999
Jan 1 2001	Purchased buildings for €450,000. During the year 2001, €120,000 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 €60,000 by Cavanagh Ltd for this work.
Jan 1 2002	Re-valued buildings owned at €1,320,000 (a 10% increase in respect of each building).
Jan 1 2003	Sold for €700,000 the buildings owned on 1/1/1999. The remaining buildings were re-valued at €800,000.

You are required to:

Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 1999 to 31 December 2003 **(Bank Account and Profit and Loss Account not required).**

(60 marks)

4. Cash Flow Statement

The following are the balance sheets of Creation Plc as at 31/12/2002 and 31/12/2003, together with an abridged profit and loss account for the year ended 31/12/2003:

Abridged Profit and Loss Account for the year ended 31/12/2003		**€**
Operating profit		150,600
Interest for year		(10,600)
Profit before taxation		140,000
Taxation for year		(47,000)
Profit after taxation		93,000
Dividends - Interim	23,000	
- Proposed	48,000	(71,000)
Retained profits for the year		22,000
Retained profits on 1/1/2003		189,000
Retained profits on 31/12/2003		211,000

Balance Sheets as at	**31/12/2003**		**31/12/2002**	
Fixed Assets	**€**	**€**	**€**	**€**
Land and buildings at cost	800,000		725,000	
Less accumulated depreciation	(75,000)	725,000	(60,000)	665,000
Machinery at cost	380,000		450,000	
Less accumulated depreciation	(190,000)	190,000	(170,000)	280,000
		915,000		945,000
Financial Assets				
Quoted investments		120,000		90,000
Current Assets				
Stock	225,000		208,000	
Debtors	212,000		184,000	
Bank	–		12,000	
Cash	3,000		1,000	
	440,000		405,000	
Less Creditors: amounts falling due within 1 year				
Trade creditors	253,000		230,000	
Interest due	1,400		–	
Taxation	51,000		44,000	
Dividends	48,000		37,000	
Bank	8,600		–	
	(362,000)		(311,000)	
Net Current Assets		78,000		94,000
		1,113,000		1,129,000
Financed by				
Creditors: amounts falling due after more than 1 year				
8% Debentures		50,000		160,000
Capital and Reserves				
€1 Ordinary shares	840,000		780,000	
Share premium	12,000		–	
Profit and loss account	211,000	1,063,000	189,000	969,000
		1,113,000		1,129,000

The following information is also available:

1. There were no disposals of buildings during the year but new buildings were acquired.
2. There were no purchases of machinery during the year. Machinery was disposed of for €24,000.
3. Depreciation charged for the year on machinery in arriving at the operating profit was €55,000.

You are required to:

(a) Reconcile the operating profit to net cash inflow from operating activities (20)

(b) Prepare the cash flow statement of Creation Plc for the year ended 31/12/2003. (30)

(c) Explain why profit does not always mean a corresponding increase in cash and list two non cash items. (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 Coulter Ltd, a service provider in the leisure industry, whose Authorised Capital is €900,000, made up of 650,000 Ordinary Shares at €1 each and 250,000 10% Preference Shares at €1 each.

Trading and Profit and Loss account for year ended 31/12/2003

		€
Sales		1,100,000
Costs of goods sold		
Stock 1/1/2003	63,000	
Purchases	751,000	
Stock 31/12/2003	(74,000)	(740,000)
Total operating expenses for the year		(208,000)
Interest for year		(15,000)
Net Profit for year		137,000
Proposed dividends		(66,000)
Retained profits for year		71,000

Ratios and figures for year ended 31/12/2002

Earnings per ordinary share	22c
Dividend per ordinary share	2.9c
Quick ratio	0.9 to 1
Market value of ordinary share	€1.75
Return on capital employed	14%
Return on equity funds	19%
Interest cover	9 times
Gearing	40%

Balance Sheet as at 31/12/2003

Intangible Assets	140,000	
Fixed Assets	760,000	900,000
Current Assets	170,000	
Current Liabilities		
Trade creditors	(35,000)	
Proposed dividends	(66,000)	69,000
		969,000
9% Debentures 2008/2009		160,000
Issued capital		
500,000 Ordinary shares @ €1 each	500,000	
200,000 10% preference shares @ €1 each	200,000	
Profit and loss balance	109,000	809,000
		969,000

You are required to answer the following:

(a) (i) Cash purchases if the average period of credit received from creditors is 1.5 months.
(ii) Earnings per share
(iii) How long it would take one ordinary share to recoup (recover) its 2002 market price based on present dividend pay out rate.
(iv) The dividend yield for **2002.**
(v) The market value of one ordinary share **in 2003** if the price earnings ratio is 9. (50)

(b) Assume that the company wishes to raise further finance by issuing the remaining shares at €2 per share. Would you as a shareholder be prepared to purchase these shares? Outline your reasons for purchasing/not purchasing some shares. Your answer should include all relevant information included in the above figures and references to any other information that you consider necessary. (50)

(100 marks)

6. Club Accounts

Included among the assets and liabilities of the Green Glen Golf Club on 1/1/2003 were the following: Clubhouse & course €740,000, Bar stock €3,800, Equipment (at cost) €28,600, Life membership €36,000, Bar debtors €155, Bar creditors €2,450, Subscriptions received in advance €1,800, 6% Government investments €40,000, Investment income due €150, Levy reserve fund €60,000 and Wages due €2,400.

The Club Treasurer has supplied the following account of the Club's activities during the year ended 31/12/2003:

Receipts	**€**	**Payments**	**€**
Bank Current Account	4,440	Bar purchases	80,500
Investment income	1,450	Sundry expenses	185,600
Entrance fees	17,000	Catering costs	4,460
Catering receipts	6,650	Equipment	44,500
Annual sponsorship	33,000	Coaching lessons	4,650
Subscriptions	254,200	Repayment of €30,000 loan on 31/12/2003	
Bar receipts	112,660	together with 1¼ years' interest	34,500
		Transfer to Building Society 31/12/2003	70,000
		Balance	5,190
	€429,400		€429,400

You are given the following additional information and instructions:

1. Bar stock on 31/12/2003 was €4,300.
2. Equipment owned on 31/12/2003 is to be depreciated at the rate of 20% of cost.
3. Clubhouse and course to be depreciated by 2% of cost.
4. Bar debtors and bar creditors on 31/12/2003 were €110 and €2,770 respectively.
5. Subscriptions include:
   - 2 life memberships of €6,000 each.
   - Subscriptions for 2004 amounting to €2,400.
   - Levy for 2003 of €200 on 300 members.
   - Levy of €200 on 8 members for 2002.
6. Life membership was to be written off over a 12 year period commencing in 2003.

You are required to:

(a) Show the Club's accumulated fund (capital) on 1/1/2003. (30)

(b) Show the Income and Expenditure Account for the year ended 31/12/2003. (35)

(c) Show the Club's Balance Sheet on 31/12/2003. (20)

(d) Indicate the points you, as treasurer, might make if the members at the AGM of the club proposed to reduce the annual subscription by 20%. (15)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of S. Craddock, a furniture and carpet trader, failed to agree on 31/12/2003. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2003

		€	€
Fixed Assets			
Premises		650,000	
Fixtures & fittings		72,000	722,000
Current Assets			
Stock (including suspense)		88,600	
Debtors		33,300	
Cash		400	
		122,300	
Less: Current Liabilities			
Creditors	52,000		
Bank	27,000	79,000	43,300
			765,300
Financed by:			
Capital		730,000	
Add: Net profit		63,300	
		793,300	
Less: Drawings		28,000	765,300
			765,300

On checking the books, the following errors were discovered:

(i) Furniture, purchased on credit from J. Dolan for €16,500, had been entered as €6,500 on the incorrect side of Dolan's account and credited as €1,650 in the Fixtures & Fittings account.

(ii) A debtor who owed Craddock €900 sent a cheque for €750 and €100 in cash in full settlement. This was correctly recorded in the books. However,no entry had been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

(iii) Bedside Lockers, previously sold on credit for €340, had been returned to Craddock. These goods had been incorrectly entered as €34 on the credit of the Fixtures & fittings account and as €40 on the debit of the Purchases account.

(iv) A private debt for €1,600, owed by Craddock, had been offset in full against a business debt of €1,700, owed to the firm for carpet repairs previously carried out. No entry had been made in the books in respect of this offset.

(v) Craddock had returned furniture, previously purchased on credit from a supplier for €8,800, and had entered this transaction in the relevant ledger accounts incorrectly as €8,880. However, a credit note subsequently arrived from the supplier in respect of the return showing a transport charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €8,600 in the creditor's account.

You are required to:

(a)	Journalise the necessary corrections.	(55)
(b)	Show the Suspense Account.	(10)
(c)	Prepare a Statement showing the correct net profit.	(15)
(d)	Prepare a corrected Balance Sheet.	(20)
		(100 marks)

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

8. Marginal Costing

Carroll Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2003, during which 60,000 units were produced and sold, was as follows:

	€	**€**
Sales (60,000 units)		960,000
Materials	331,000	
Direct labour	158,300	
Factory overheads	81,000	
Administration expenses	113,400	
Selling expenses	78,000	761,700
Net profit		198,300

The materials, direct labour and 30% of the factory overheads are variable costs. Apart from the sales commission of €0.70 per unit, 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 2004 if the company is to increase its net profit by 15% over the 2003 figure assuming the selling price and cost levels and percentages remain unchanged.
(c) The profit the company would make in 2004 if it reduced its selling price to €14, increased fixed costs by €14,000 and thereby increased the number of units sold to 75,000, with all other cost levels and percentages remaining unchanged.
(d) The selling price the company must charge per unit in 2004, if fixed costs increase by 10% but the volume of sales and the profit remain the same.
(e) The number of units that must be sold at €17 per unit to provide a profit of 10% of the sales revenue received from these same units.
(f) List and explain two limitations/assumptions of marginal costing.

(80 marks)

9. Cash Budgeting

Slaney Ltd is preparing to set up business on 1/7/2004 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
Sales	€525,000	588,000	616,000	630,000	658,000	672,000	3,689,000
Purchases	€300,000	336,000	352,000	360,000	376,000	384,000	2,108,000

The expected selling price is €70 per unit.

The cash collection pattern from debtors is expected to be:

Cash customers - 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit customers - 70% of sales revenue will be from credit customers. These creditors will pay their bills 50% in month after sale and the remainder in the second month after sale.

The purchases will be paid for 50% in month after purchase when 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.

Expected costs: Wages €45,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €52,000 per month payable as incurred.

Equipment will be purchased in July costing €48,000 which will have a useful life of 5 years. To finance this purchase a loan of €50,000 will be secured at the rate of 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2005.

You are required to:

(a) Prepare a cash budget for six months July to December 2004.
(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2004.

(80 marks)

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