Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2007

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY, 18 JUNE, 2007 – AFTERNOON, 2.00 pm to 5.00 pm.

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

Amber Ltd., has an Authorised Capital of €1,800,000 divided into 1,200,000 Ordinary Shares at €1 each and 600,000 10% Preference Shares at €1 each.
The following Trial Balance was extracted from its books at 31/12/2006:

	€	€
Buildings at cost	902,000	
Delivery Vans (cost €280,000)	190,000	
Discount (Net)		10,800
Profit and Loss Balance 1/1/2006	17,200	
Stocks on hand 1/1/2006	75,200	
Debenture interest for the first four months	5,000	
9% Investments 1/1/06	320,000	
Patents (incorporating 3 months investment income)	24,800	
Purchase and Sales	1,320,000	1,760,000
Interim dividends for the first 6 months	48,000	
Bad Debts Provision		3,200
Debtors and Creditors	100,400	86,600
Bank		44,000
Salaries and general expenses	199,600	
8% Debentures		180,000
Issued Share Capital – Ordinary Shares		800,000
– 10%Preference Shares		400,000
Directors fees	48,000	
Rent	19,600	
Advertising (including Suspense)	14,800	
	3,284,600	3,284,600

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

(i) Stocks at 31/12/2006 at cost was € 85,200 – this figure includes damaged stock which cost 6,600 but which now has a net realisable value of €2,600.
(ii) Patents, which incorporated 3 months investment income, are to be written off over a 5 year period commencing in 2006.
(iii) Provide for depreciation on delivery vans at the annual rate of 12 ½ % of cost from the date of purchase to the date of sale.
NOTE: On 31/3/06 a delivery van which had cost €24,000 on 30/6/00 was traded in against a new van which cost €56,000. An allowance of €10,000 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) 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 €700 entered only in the creditors account.
(v) During 2006 a store room which cost €40,000 and stock which cost €12,000 were destroyed by fire. A new store was built by the firms own workers. The cost of their labour €19,000 had been treated as a business expense and the materials costing €51,000 were taken from the firms stocks. The insurance company has agreed to contribute €52,000 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 31/12/06 has arrived showing an overdraft of €43,560. A comparison of the bank account and the bank statement has revealed the following discrepancies:
1. A cheque for €670 issued to a supplier had been entered in the books (cash book and ledger) as €760.
2. 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.
3. A cheque for fees €400 issued to a director had not yet been presented for payment.
(vii) The Directors recommend that:
a) The Preference dividend due be paid.
b) A final dividend on ordinary shares be provided bringing the total dividend up to 11 cent per share.
c) Provision be made for both Investment income and Debenture Interest due.
d) Provision for bad debts be adjusted to 4% of debtors.
e) 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 31/12/2006. (75)
(b) Balance Sheet as at 31/12/2006. (45)
(120 marks)

2. Debtors Control Account

The Debtors Ledger Control Account of J. Forrester showed the following balances - €30,000 dr and €530 cr on 31/12/2006. 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) Discount disallowed to a customer €46 had been treated as discount allowed in the discount account.

(ii) Interest amounting to €90, charged to a customer's overdue account, had been posted to the interest account as €110. Following a complaint by the customer this was reduced to €40. This reduction had not been entered in the books.

(iii) Cash sales €1,600 and credit sales €820 had both been entered by Forrester on the credit of the customer's account.

(iv) A credit note was sent to a customer for €520. The only entry made in the books was €52 debited to the customer's account.

(v) An invoice sent by Forrester to a customer for €1,560 had been entered in the appropriate day book as €1,650. When posting from this book to the ledger no entry had been made in the customer's account.

(vi) Forrester had accepted sales returns €300 from a customer and entered this correctly in the books. The accounts clerk sent out a credit note showing a restocking charge of 10% of sales price but made the necessary adjustment only in the customer's account. Later this charge was reduced to 4% but this reduction was not reflected in the accounts.

You are required to:

(a) Prepare the Adjusted Debtors Ledger Control Account. (22)

(b) Prepare the Adjusted Schedule of Debtors showing the original balance. (30)

(c) Explain: (i) Contra item.
(ii) How 'Opening Balance €530' above could arise. (8)

(60 marks)

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

On 1 January 2002 McGrath Ltd. owned freehold property and land which cost €670,000, consisting of land €240,000 and buildings €430,000. The company depreciates its buildings at the rate of 2% per annum 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 eight years earlier and depreciation had been charged against profits in each of these eight years (land is not depreciated).

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

Jan 1 2002	Re-valued property at €810,000. Of this revaluation €290,000 was attributable to land.
Jan 1 2003	Sold for €340,000 land which cost €240,000 but was since re-valued on 1/1/2002
Jan 1 2004	Purchased buildings for €470,000. During the year 2004, €150,000 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 €80,000 by McGrath Ltd. for this work.
Jan 1 2005	Re-valued buildings owned at €1,403,000 (a 15% increase in respect of each building).
Jan 1 2006	Sold for €660,000 the buildings owned on 1/1/2002. The remaining buildings were re-valued at €860,000.

You are required to:

(a) Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 2002 to 31 December 2006.
(Bank Account and Profit and Loss Account <u>not</u> required) (55)

(b) Show relevant extract from Balance Sheet as at 31/12/2006 (5)

(60 marks)

4. Tabular Statement

The financial position of Harris Ltd on 1/1/2006 is shown in the following Balance sheet:

Balance Sheet as at 1/1/2006

	Cost	Dep to date	Net
Fixed Assets	€	€	€
Land & Buildings	414,000	12,420	401,580
Vehicles	68,400	29,700	38,700
	482,400	42,120	440,280
Current Assets			
Stock	53,820		
Debtors	55,530		
Advertising prepaid	1,350	110,700	
Less Creditors: Amounts falling due within one year			
Creditors	58,680		
Bank Overdraft	9,090		
Wages due	2,160	(69,930)	
Net Current Assets			40,770
			481,050
Financed By			
Capital and Reserves			
Authorised – 765,000 Ordinary Shares @ €1 each			
Issued – 387,000 Ordinary Shares @ €1 each			387,000
Share Premium			36,000
Profit and Loss Balance			58,050
			481,050

The following transactions took place during 2006:

Jan On 1/1/2006 Harris Ltd re-valued Land and Buildings at €520,000. This valuation included land now valued at €80,000.

Feb On 1/2/2006 Harris Ltd bought an adjoining business which included buildings €300,000, Vehicles €50,000, Stock €20,000 and Creditors €30,000. The purchase price was discharged by granting the seller 290,000 shares in Harris Ltd at a premium of 20c per share.

March Goods previously sold by Harris Ltd for €15,000 were returned. The selling price of these goods was cost plus 20%. 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 vehicle which cost €15,000 was traded in against a new vehicle costing €34,000. An allowance of €10,000 was made for the old van. Depreciation to date on the old van was €4,500.

May Received a bank statement on May 31 showing a direct debit of €3,000 to cover advertising for the year ended 31/5/2007 and a credit transfer received of €2,500 to cover 10 months rent in advance from May 1.

Aug A payment of €700 was received from a debtor whose debt had been previously written off and who now wishes to trade with Harris Ltd again. This represents 70% of the original debt and the debtor had undertaken to pay the remainder of the debt in February 2007.

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 vehicles for the year was €20,000.

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 31/12/2006.

(60 marks)

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

5. **Interpretation of Accounts**

The following are the actual figures for the year ended 31/12/2006 and the projected figures for the year ended 31/12/2007 of Mila Plc., a manufacturer in the pharmaceutical industry. Mila Plc. has an authorised capital of €900,000 made up of 650,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each. The firm has already issued 325,000 ordinary shares and all the preference shares.

Trading and Profit and Loss account for year ended 31/12/2006

	€	€
Sales		820,000
Opening Stock	50,000	
Closing Stock	55,000	
Costs of goods sold		615,000
Gross Profit		205,000
Operating expenses for year		145,000
		60,000
Interest		27,000
Dividends		31,000
Retained Profit		2,000
Profit and Loss Balance 1/1/2006		45,000
Profit and Loss Balance 31/12/2006		47,000

Projected ratios and figures for year ended 31/12/2007

Earnings per Ordinary Share	8c
Dividend per Ordinary Share	6.1c
Interest Cover	4 times
Quick Ratio	1.1 to 1
Price Earnings Ratio	14 to 1
Return on Capital Employed	8.5%
Gearing	58%

Balance Sheet as at 31/12/2006

		€
Fixed Assets		680,000
Investments (market value 31/12/2006 €210,000)		188,000
		868,000
Current Assets	187,000	
Current Liabilities		
Trade Creditors	(102,000)	
Proposed Dividends	(31,000)	54,000
		922,000
Financed by		
9% Debentures (2014 secured)		300,000
Capital and Reserves		
Ordinary Shares @ €1 each	325,000	
6% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	47,000	622,000
		922,000

Market value of one Ordinary Share €1.20

You are required to calculate the following for 2006

(a) (i) The Cash Purchases if the period of credit received from Trade Creditors is 2.4 months.
(ii) The Interest Cover.
(iii) The Dividend Yield.
(iv) How long it would take one Ordinary share to recover its value at present pay out rate.
(v) The projected market value of one Ordinary share in 2007. (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. (35)

(c) Advise the bank manager as to whether a loan of €150,000, on which an interest rate of 10% would be charged, should be granted to Mila Plc. for future expansion. Use relevant ratios and other information to support your answer. (20)

(100 marks)

6. Service Firm

The following were included in the assets and liabilities of the Oak Health Centre Ltd, on 1/1/2006:
Buildings €500,000; Equipment €70,000; Furniture at cost €20,000; Stock of health food for sale €1,300; Heating oil €640; Creditors for supplies to Health Centre €1,250; 5% Investments €70,000; Contract cleaning prepaid €250; Clients' fees paid in advance €4,300; Authorised Capital €430,000 and Issued Capital €300,000.

All fixed assets have 2 years accumulated depreciation on 1/1/2006.

The following is the Receipts and Payments Account for the year ended 31/12/2006:

Receipts and Payments Account of Oak Health Centre for year ended 31/12/2006

	€		€
Balance at Bank 1/1/2006	7,250	Laundry	800
Clients' fees	252,600	Wages & Salaries	86,220
Investment Income	3,000	Repayment of €50,000 loan on	
Shop receipts	65,000	1/5/2006 with 18 months interest	57,200
		Equipment	14,000
		New extension	70,000
		Cleaning	2,600
		Light and heat	2,800
		Insurance	6,200
		Telephone	1,660
		Purchases – shop	42,100
		Purchases – supplies	36,800
		Balance at Bank 31/12/2006	7,470
	327,850		327,850

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

1. Closing stocks at 31/12/2006: Shop €1,600, Heating oil €250.
2. Cleaning is done under contract payable monthly in advance and includes a payment of €300 for January 2007.
3. Clients' fees includes fees for 2007 of €3,000. Clients' fees in arrears at 31/12/2006 €450.
4. The closing figure for bank does not take into account a dishonoured cheque €100 received from a client and lodged in late December.
5. Wages and Salaries include €12,000 per annum paid to the receptionist, who also runs the shop. It is estimated that 70% of this salary, €200 of the light and heat, €500 of the insurance and €340 of the telephone are attributable to the shop.
6. On 31/12/2006 the Oak Health Centre Ltd. decided to re-value Buildings at €680,000.
7. Electricity due 31/12/2006 €270.
8. Creditors for supplies to the Health Centre Ltd. at 31/12/2006 are €1,400
9. Depreciation to be provided as follows:
   Buildings 2% of cost for the full year.
   Equipment 15% of cost per annum.
   Furniture 25% of cost per annum.

You are required to:

(a) Calculate the company's reserves on 1/1/2006. (20)

(b) Calculate the Profit/Loss from the shop for the year ended 31/12/2006. (12)

(c) Prepare a Profit and Loss account for the year ended 31/12/2006. (36)

(d) Prepare a Balance Sheet on 31/12/2006. (32)

(100 marks)

7. **Incomplete Records**

On 1/1/2006, P. Lynch purchased a business for €590,000 which included the following tangible assets and liabilities: Premises €560,000; Stock €19,000; Debtors €12,000; 3 months Premises Insurance prepaid €1,600; Trade Creditors €18,200; Wages due €2,600 and Cash €200.

During 2006 Lynch did not keep a full set of accounts but was able to supply the following information on 31/12/2006.

Cash Payments:	Lodgements €116,000, General Expenses €73,800, Purchases €105,200.
Bank Payments:	Furniture €14,000, Creditors €38,800, Light and Heat €5,400, Interest €2,250, annual Premises Insurance Premium €6,800, Delivery Van €28,400.
Bank Lodgements:	Debtors €61,000, Cash €116,000, Dividends €3,000.

Each week Lynch took goods from stock to the value of €150 and cash €200 for household expenses.

Lynch borrowed €180,000 on 1/9/2006, part of which was used to purchase an adjoining premises and residence costing €155,000. It was agreed that Lynch would pay interest on the last day of each month at a rate of 5% per annum. The capital sum was to be repaid in a lump sum in the year 2015 and to provide for this the bank was to transfer €1,200 on the last day of each month from Lynch's business bank account into an investment fund commencing on 30/9/2006.

Lynch estimated that 25% of the Furniture, 20% of interest *payable* for the year and 25% of Light and heat *used* should be attributed to the private section of the premises.

Included in the assets and liabilities of the firm on 31/12/2006 were: Stock €16,400, Debtors €20,200, Trade Creditors €30,400, Cash €400, Electricity due €480 and €25 interest earned by the fund to date.

You are required to:

(a) Prepare with workings the Trading and Profit and Loss Accounts for the year ended 31/12/2006. (52)

(b) Show the Balance Sheet with workings as at 31/12/2006. (40)

(c) (i) Explain the term Accounting Concept?
(ii) Name TWO fundamental accounting concepts.
(iii) Illustrate an accounting concept applying to the accounts of P. Lynch. (8)

(100 marks)

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

8. Costing and Stock Valuation

(a) Overhead Apportionment

Nevis Ltd has two Production Departments, 1 and 2 and two ancillary Service Departments, A and B. The following are the expected overhead costs for the next period.

Overhead	**Total** €
Depreciation of equipment	16,000
Depreciation of factory buildings	20,000
Factory heating	9,600
Factory cleaning	2,000
Factory canteen	10,800

The following information relates to the Production and Service Departments of the factory.

	Production		**Service**	
	Dept. 1	Dept. 2	Dept. A	Dept. B
Volume in cubic metres	1,500	3,000	1,000	500
Floor area in square metres	600	800	400	200
Number of employees	60	60	30	30
Book value of equipment	€15,000	€10,000	€5,000	€10,000
Machine hours	3,000	1,000		

You are required to:

(i) Calculate the overhead to be absorbed by each Department stating clearly the basis of apportionment used.
(ii) Transfer the Service Department costs to Production Departments 1 and 2 on the basis of machine hours.
(iii) Calculate machine hour overhead absorption rates for Departments 1 and 2.
(iv) Explain what is meant by 're-apportionment' of overheads.
(v) Illustrate and explain 'over-absorption' of overheads.

(b) Stock Valuation

Cape Ltd. is a retail store that buys and sells one commodity. The following information relates to the purchases and sales of the firm for the year 2006.

Period	**Purchases on credit**	**Credit Sales**	**Cash Sales**
01/01/2006 to 31/03/2006	3,200 @ €5 each	800 @ €10 each	1,000 @ €11 each
01/04/2006 to 30/06/2006	2,100 @ €7 each	1,000 @ €11 each	1,200 @ €10 each
01/07/2006 to 30/09/2006	2,000 @ €8 each	1,200 @ €11 each	1,200 @ €12 each
01/10/2006 to 31/12/2006	1,400 @ €9 each	1,100 @ €13 each	1,000 @ €13 each

On 1/1/2006 there was opening stock of 3,500 units @ €5 each.

You are required to:

(i) Calculate the value of closing stock using the 'first in first out (FIFO) method.
(ii) Prepare a Trading Account for the year ended 31/12/2006.

(80 marks)

9. Cash Budgeting

Aisling Ltd. is preparing to set up business on 1/7/2007 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	425,000	440,000	580,000	590,000	600,000	652,000	3,287,000
Purchases	200,000	215,000	252,000	260,000	350,000	356,000	1,633,000

(i) The expected selling price is €50 per unit.

(ii) The cash collection pattern from Sales 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 debtors will pay their bills 50% in month after sale and the remainder in the second month after sale.

(iii) The cash payments pattern for purchases is expected to be:

Credit Suppliers - 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.

(iv) Expenses of the business will be settled as follows:

Expected Costs Wages €35,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €42,000 per month payable as incurred.

Capital Costs Equipment will be purchased in July costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €40,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2007.

You are required to:

(a) Prepare a cash budget for the six months July to December 2007.

(b) Prepare a budgeted Profit and loss account for the six months ended 31/12/2007.

(c) Define 'cash budget' and describe two of its advantages.

(80 marks)

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