Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2008

ACCOUNTING - HIGHER LEVEL
(400 marks)

TUESDAY, 17th JUNE, 2008 – 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. Sole Trader – Final Accounts

The following Trial Balance was extracted from the Books of Orla Dolan on 31/12/2007:

	€	€
Buildings (Cost €580,000)	485,000	
Delivery Vans (Cost €85,000)	73,000	
8% Investments (1/4/2007)	130,000	
6% Fixed Mortgage (including increase of €50,000 received on 1/4/2007)		150,000
Patents	52,400	
Debtors and Creditors	40,000	113,000
Purchases and Sales	512,400	729,000
Stock 1/1/2007	65,600	
Commission	4,200	
Salaries and General Expenses	85,000	
Provision for Bad Debts		1,200
Discount (net)	1,900	
Rent	9,000	
Mortgage interest paid for the first three months	1,250	
Insurance (incorporating Suspense)	6,150	
VAT		4,100
Bank		15,900
PRSI		3,900
Drawings	36,200	
Capital		485,000
	1,502,100	1,502,100

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

(i) Stock at 31/12/2007 at cost was €75,000. No record has been made **in the books** for goods in transit on 31/12/2007. The invoice for these goods had been received showing the recommended retail selling price of €6,000 which is cost plus 25%.

(ii) Provide for depreciation on vans at the annual rate of 15% of cost from date of purchase to date of sale.
NOTE: On 31/3/2007 a delivery van which cost €30,000 on 30/9/2004 was traded against a new van which cost €36,000. An allowance of €10,000 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) The suspense figure arises as a result of the posting of an incorrect figure for Mortgage Interest in the mortgage interest account and discount received €200 entered only in the creditors account. The correct interest was entered in the bank account.

(iv) Goods with a retail selling price of €10,000 were returned to a supplier. The selling price was cost plus 25%. The supplier issued a credit note showing a restocking charge of 10% of cost price. No entry has been made in respect of the restocking charge.

(v) Provision to be made for mortgage interest due. 20% of the mortgage interest for the year refers to the private section of the building.

(vi) Patents, which incorporate 3 months investment income received, are to be written off over a five year period, commencing in 2007.

(vii) Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the Buildings at €800,000 on 31/12/2007.

(viii) Goods withdrawn by the owner for private use during the year with a retail value of €2,000 which is cost plus 25% were omitted from the books.

(ix) A cheque for €600 had been received on 31/12/2007 in respect of a debt of €1,000 previously written off as bad. The debtor has agreed to pay the remainder within 1 month. No entry was made in the books to record this transaction.

You are required to prepare a:

(a) Trading and Profit and Loss Account for the year ended 31/12/2007. (80)
(b) Balance Sheet as at 31/12/2007. (40)
(120 marks)

2. **Creditors Control Account**

The Creditors Ledger Control Account of K O'Shea showed the following balances - €17,550 cr and €630 dr on 31/12/2007. These figures did not agree with the Schedule (List) of Creditors' Balances extracted on the same date. An examination of the books revealed the following

(i) K O'Shea had received an invoice from a supplier for €510. This had been entered in the appropriate day-book as €570. However, when posting from this book to the ledger, no entry had been made in the personal account.

(ii) A credit note was received from a supplier for €120. The only entry made in the books was €102 credited to a creditor's account.

(iii) A creditor had charged K O'Shea interest of €76 on an overdue account. The only entry made in the books for this interest had been €67 credited to the creditor's account. After a complaint by K O'Shea this charge had been reduced to €50 but this reduction had not been reflected in the books.

(iv) Cash purchases by K O'Shea of €140 had been debited to a supplier's account.

(v) K O'Shea had returned goods €110 to a supplier and entered this correctly in the books. However, a credit note arrived showing a deduction of 10% as a restocking charge. The total amount of this credit note was debited to the creditor's account and €90 was entered on the incorrect side of the nominal ledger.

(vi) Discount disallowed by a supplier of €32 had been treated as discount received in the books.

You are required to:

(a) Prepare the Adjusted Creditors Ledger Control Account. (24)

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

(c) Outline the advantages of Control Accounts to a firm. (6)

(60 marks)

3 Club Account

Included among the assets and liabilities of the Bard's Valley Golf Club on 1/1/2007 were the following:
Clubhouse and Course €750,000, Bar stock €7,000, Equipment (at cost) €26,000, Life membership €40,000, Bar Debtors €535, Bar creditors €6,000, Levy Reserve Fund €50,000, Investment interest receivable due €400, Wages due €2,500, Subscriptions received in advance €1,600.

The club treasurer has supplied the following account of the club's activities during the year ended 31/12/2007.

Receipts	**€**	**Payments**	**€**
Bank Current account	14,000	Bar purchases	78,500
Investment Interest from		Catering costs	8,000
5% Government Investments	1,600	Sundry expenses	186,400
Entrance fees	15,000	Equipment	45,000
Catering receipts	14,000	Golf lessons for club teams	4,600
Annual sponsorship	25,000	Repayment of €30,000 loan on	
Subscriptions	250,000	31/5/2007 together with 1½	
Bar receipts	110,460	years interest	33,600
		Transfer to Building Society	
		on 31/12/2007	60,000
		Balance	13,960
	430,060		430,060

You are given the following additional information and instructions:

1. Bar stock on 31/12/2007 was €8,500
2. Equipment owned on 31/12/2007 is to be depreciated at the rate of 20% of cost.
3. Clubhouse and course to be depreciated by 2%.
4. Bar Debtors and Creditors on 31/12/2007 were €275 and €3,220 respectively.
5. Subscriptions include:
   - (i) One Life membership bringing total Life membership to 21.
   - (ii) Subscriptions for 2008 amounting to €2,600.
   - (iii) Levy for 2007 of €250 on 200 members.
   - (iv) Levy of €250 on 10 members for 2006
6. Life membership was to be written off over a 10 year period commencing in 2007.

You are required to:

(a) Show the Club's Accumulated Fund (Capital) on 1/1/2007. (25)

(b) Show the Income and Expenditure Account for the year ending 31/12/2007 (25)

(c) (i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.

(ii) If it were proposed to introduce a further four year levy to fund a €250,000 extension what points would you as an ordinary member now make. (10)

(60 marks)

4. **Published Accounts**

Lemont PLC has an Authorised share capital of €700,000 divided into 500,000 ordinary shares at €1 each and 200,000 8% preference shares at €1 each. The following trial balance was extracted from its books at 31/12/2007.

	€	€
Buildings at cost	650,000	
Buildings – Accumulated Depreciation on 1/1/2007		41,000
Vehicles at cost	200,000	
Vehicles – Accumulated Depreciation on 1/1/2007		38,000
Quoted Investments at Cost (market value €220,000)	200,000	
Unquoted Investments at cost (directors' valuation €70,500)	60,000	
Debtors and Creditors	277,000	197,000
Stock 1/1/2007	65,000	
Patent 1/1/2007	50,000	
Distribution costs	260,000	
Administrative expenses	160,000	
Purchases and Sales	1,250,000	1,990,000
Rental Income		50,000
Profit on sale of land		70,000
Dividends paid	43,000	
Bank	77,000	
VAT		70,000
8% Debentures 2012/2013		300,000
Profit &Loss Account at 1/1/2007		50,000
Investment income received – Quoted		10,000
Unquoted		3,000
Issued Capital		
Ordinary Shares		350,000
8% Preference Shares		100,000
Provision for Bad Debts		20,000
Debenture Interest paid	10,000	
Discount		13,000
	3,302,000	3,302,000

The following information is relevant:

(i) Stock on 31/12/2007 is €222,000

(ii) During the year, Land adjacent to the company's premises, which had cost €90,000 was sold for €160,000. At the end of the year the company re-valued its Buildings at €800,000. The Company wishes to incorporate this value in this years accounts.

(iii) Provide for debenture interest due, auditors fees €8,000, directors fees €50,000 and corporation tax €85,000.

(iv) Included in administrative expenses is the receipt of €8,000 for patent royalties.

(v) Depreciation is to be provided for on Buildings at a rate of 2% straight line and is to be allocated 20% on distribution costs and 80% on administrative expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at a rate of 20% of cost.

(vi) The patent was acquired on 1/1/2003 for €90,000. It is being amortised over 9 years in equal instalments. The amortisation to be included in Cost of Sales.

You are required to:

(a) Prepare the published Profit & Loss account for the year 31/12/2007, in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:

1. Accounting policy note for Tangible fixed assets and stock.
2. Operating Profit
3. Financial fixed assets
4. Dividends
5. Tangible fixed assets. (50)

(b) (i) State how a company would deal with a Contingent Liability which is possible but unlikely.
(ii) What regulations must accountants observe when preparing financial statements for publication? (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 Whelan Plc, a manufacturer of building materials. The company has an authorised capital of €800,000 made up of 550,000 ordinary shares at €1 each and 250,000 8% preference shares at €1 each. Whelan Plc, has already issued 400,000 ordinary shares and all of the 8% preference shares.

Trading and Profit and Loss account for year ended 31/12/2007

	€
Sales	930,000
Costs of goods sold	(630,000)
Operating expenses for year	(200,000)
Interest for year	(16,000)
Net Profit for year	84,000
Dividends paid	(45,000)
Profit and Loss Balance 1/1/2007	65,000
Profit and Loss Balance 31/12/2007	104,000

Ratios and information for year ended 31/12/2006

Earnings per Ordinary Share	18c
Dividend per Ordinary Share	5c
Interest cover	8 times
Quick Ratio	1.1:1
Market Value of one Ordinary Share	€1.35
Return on Capital Employed	9%
Gearing	40%
Dividend cover	3 times
Dividend yield	6%

Balance Sheet as at 31/12/2007

		€
Intangible Assets		130,000
Tangible Assets		600,000
Investments (market value €160,000)		170,000
		900,000
Current Assets (inc. Closing Stock €64,000)	180,000	
Trade Creditors	(166,000)	14,000
		914,000
10% Debentures (2011/2012)		160,000
Issued Capital		
Ordinary Shares @ €1 each	400,000	
8% Preference Shares @ €1 each	250,000	
Profit and Loss Balance	104,000	754,000
		914,000

Market Value of one Ordinary Share €1.30

You are required to calculate the following for 2007:

(a) (i) The Dividend Yield.
(ii) The opening stock if the rate of stock turnover is 10 (based on average stock).
(iii) The earnings per ordinary share in 2007.
(iv) How long would it take one ordinary share to recoup (recover) its 2007 market price based on present dividend payout rate?
(v) The Price/Earnings ratio. (45)

(b) Indicate whether the ordinary shareholders should be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)

(c) A rising liquidity ratio is a sign of prudent management. Briefly discuss. (15)

(100 marks)

6. Cash Flow Statement

The following are the Balance Sheets of Hayes Plc as at 31/12/2006 and 31/12/2007.

Balance Sheets as at	**31/12/2007**		**31/12/2006**	
Fixed Assets	**€**	**€**	**€**	**€**
Cost	620,000		490,000	
Less accumulated depreciation	(220,000)	400,000	(100,000)	390,000
Financial Assets				
Investments at cost		200,000		300,000
Current Assets				
Stocks	360,000		252,000	
Debtors	170,000		110,000	
Government Securities	70,000			
Cash	50,000		70,000	
	650,000		432,000	
Less Creditors: amounts falling due within 1 year				
Trade creditors	214,000		247,000	
Bank	20,000		34,000	
Taxation	48,000		39,000	
	282,000	368,000	320,000	112,000
		968,000		802,000
Financed by				
Creditors: amounts falling due after more than one year				
10% Debentures		170,000		120,000
Capital and Reserves				
Ordinary shares @ €1 each	290,000		230,000	
Share premium	18,000		---------	
Profit and Loss account	490,000	798,000	452,000	682,000
		968,000		802,000

The following information is also available:

(i) 60,000 shares were issued at €1.30 per share.
(ii) Fixed assets, which cost €60,000 and on which total depreciation of €30,000 had been provided, were sold for €40,000.
(iii) €50,000 Debentures were issued on 1/1/2007.
(iv) Dividends paid during the year amounted to €54,000.
(v) Taxation charge on profits for year 2007 was €60,000.
(vi) Investments which cost €100,000 were sold for cash at their book value.

You are required to:

(a) (i) Prepare an Abridged Profit & Loss account to ascertain the operating profit for the year ending 31/12/2007 (85)
(ii) Prepare the Cash Flow statement for Hayes Plc for the year ending 31/12/2007, including Reconciliation statements.

(b) (i) Explain why earning profit does not always result in a corresponding increase in cash balances.

(ii) Write a note on the Accounting Standards Board. In your answer refer to the main activity of the Board and how it has influenced the preparation of Cash Flow statements. (15)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of L. O'Shea, a boutique owner, failed to agree on 31/12/2007. The difference was entered in a suspense account and the following Balance Sheet was prepared.:

Balance Sheet as at 31/12/2007

	€	€	€
Fixed Assets			
Premises		400,000	
Motor Vehicles		20,000	
Furniture and equipment		16,000	436,000
Current Assets			
Stock		17,000	
Debtors		5,600	
Cash		3,200	
		25,800	
Less: Current Liabilities			
Creditors (including suspense)	12,200		
Bank	5,600	(17,800)	8,000
			444,000
Financed by:			
Capital		441,000	
Add: Net profit		15,000	
		456,000	
Drawings		12,000	444,000
			444,000

On checking the books, the following errors were discovered:

(i) An overdraft of €400 in the bank account had been brought down on the incorrect side of the nominal ledger and consequently had been entered on the incorrect side of the trial balance.

(ii) O'Shea sold privately owned jewellery to a debtor of the business on credit for €2,800. This sale had been treated in error as a cash sale of stock. O'Shea intended that the proceeds of this sale were to be retained in the business.

(iii) A debtor who owed L. O'Shea €700 sent a cheque for €550 and €100 in cash in full settlement. This was correctly entered 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.

(iv) O'Shea won a motor vehicle valued at €20,000 in a grand prize draw. L O'Shea gave the vehicle to the business and took an old van from the business valued at €8,000, which was to be used for private purposes. The only entry made in the firm's books regarding both motor vehicles was a debit in the cash book of €8,000.

(v) Cash payments of €160 for repairs to the business motor vehicle and €100 for repairs to private motor vehicles had both been credited to the creditors account and also credited to motor vehicles account.

You are required to:

(a) Journalise the necessary corrections. (50)

(b) Show the Suspense account. (6)

(c) Prepare a Statement showing the correct Net profit. (14)

(d) Prepare a corrected Balance Sheet. (20)

(e) Explain with examples what is meant by:

(i) Error of Commission;

(ii) Error of Principle. (10)

(100 marks)

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

8. Marginal Costing and Separation of Costs

(a) Doyle Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2007, during which 14,000 units were produced and sold, was as follows. The company operated at 70% of capacity in 2007.

	€	€
Sales (14,000 units)		560,000
Materials	120,000	
Direct labour	140,000	
Factory overheads	90,000	
Administration expenses	112,000	462,000
Net profit		98,000

The materials, direct labour and a third of the factory overheads are variable costs. **€62,500** of the administration expenses are fixed.

You are required to calculate:

(i) The company's break-even point and margin of safety.

(ii) The profit the company would make in 2008 if it reduced the selling price by 5%, increased advertising by €10,000 and thereby increased sales to 20,000 units with all other cost levels unchanged.

(iii) The number of units that must be sold at €36 per unit to provide a profit of 20% of the sales revenue received from these same units.

(iv) The profit the company would make if a commission of 5% of sales is given to sales personnel and €1 extra per unit spent on enhanced packaging, thereby increasing the sales to 19,000 units at €42 per unit

(v) For what purpose is the Contribution Sales Ratio regularly used? When is the use of this ratio essential?

(b) Mixed costs can be separated into their fixed and variable elements by using records of costs from previous periods. Max PLC manufactures a single component. The following production costs and output levels have been recorded during March, April and May 2007:

Output Levels	**50%**	**75%**	**90%**
Units	10,000	15,000	18,000
Costs	**€**	**€**	**€**
Direct materials	140,000	210,000	252,000
Direct Labour	80,000	120,000	144,000
Production Overheads	66,000	96,000	114,000
Other overhead costs	57,000	83,250	99,000
Administration expenses	25,000	25,000	25,000
	368,000	534,250	634,000

Profit is budgeted to be 15% of sales.

You are required to:

(i) Separate production overheads into fixed and variable elements.
(ii) Separate other overhead costs into fixed and variable elements.
(iii) Prepare a Flexible Budget for 95% Activity Level using Marginal costing principles, and show the contribution. **(80 marks)**

9. Budgeting

Roche Ltd has recently completed its annual sales forecast to December 2009. It expects to sell two products – Super at €220 and Supreme at €260.

All stocks are to be reduced by 20% from their opening levels by the end of 2009 and are valued using the FIFO method.

	Super	**Supreme**
Sales are expected to be	10,000 units	4,200 units

Stocks of finished goods on 1/1/2009 are expected to be:

Super	600 units at €120 each
Supreme	450 units at €140 each

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

	Super	**Supreme**
Material x	7 kgs	5 kgs
Material y	6 kgs	8 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 1/1/2009 are expected to be:

Material x	5000 kgs @ €2.50 per kg
Material y	3000 kgs @ €4.50 per kg

The expected prices for raw materials during 2009 are:

Material x	€3 per kg
Material y	€5 per kg

The skilled labour rate is expected to be €13 per hour.

Production overhead costs are expected to be:

Variable	€4 per skilled labour hour
Fixed	€204,080 per annum

You are required to prepare a:

(a) Production Budget (in units).

(b) Raw Materials Purchases Budget (in units and €).

(c) Production Cost/Manufacturing Budget.

(d) Budgeted Trading Account *(if the budgeted cost of a unit of Super and Supreme is €180 and €210 respectively)*.

(e) (i) Explain what is meant by a Capital Budget.

(ii) The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.

(80 marks)

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