Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2009

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY, 15th JUNE – AFTERNOON, 2.00 to 5.00

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 including a Manufacturing Account

Blenheim Ltd, a manufacturing firm, has an Authorised Capital of €800,000 divided into 500,000 Ordinary Shares at €1 each and 300,000 6% Preference Shares at €1 each.
The following Trial Balance was extracted from its books at 31/12/2008:

	€	€
Factory Buildings (cost €525,000)	480,000	
Plant and Machinery (cost €280,000)	150,000	
Discount (Net)		3,000
Profit and Loss Balance 1/1/2008		75,400
Stocks on hand 1/1/2008		
Finished Goods	84,500	
Raw Materials	45,000	
Work in progress	21,250	
Sales		1,085,000
Patents	60,000	
Carriage on raw materials	6,300	
Hire of special equipment	10,000	
Purchase of Raw Materials	480,250	
Dividends paid	40,000	
Sale of scrap material		4,500
Debtors and Creditors	64,500	55,600
Bank		10,300
Direct Factory wages	252,460	
Selling Expenses	105,165	
9% Debentures (including €60,000 issued on 1/4/2008)		90,000
Issued Share Capital – Ordinary Shares		350,000
– 6% Preference Shares		200,000
General Factory overheads	60,200	
VAT		8,400
Debenture interest paid for the first 3 months	175	
Administration expenses (including Suspense)	22,400	
	1,882,200	1,882,200

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

(i) Stocks on hand at 31/12/2008: Finished goods €90,000; Raw Materials €49,000; Work in Progress €26,450
The figure for finished goods includes items which cost €5,000 to produce, but now have a sales value of €3,000.

(ii) Patents are being written off over 6 years which commenced in 2006.

(iii) Included in the figure for the sale of scrap materials is €800 received from the sale of an old machine on 1/9/2008. This machine had cost €9,000 on 1/4/2005. The cheque had been entered in the bank account. This was the only entry made in the books.

(iv) The suspense figure arises as a result of discount allowed €200 entered only in the discount account and of the posting of an incorrect figure for the debenture interest paid to the interest account. The correct interest was entered in the bank account.

(v) A bad debt of €500 should be written off and a provision for bad debts should be provided at 5% of debtors.

(vi) It was discovered that goods, which cost the firm €6,500 to produce, were sent to a customer on a sale or return basis. These goods were charged to the customer in error at cost plus 20%.

(vii) During 2008, Blenheim Ltd, built an extension to the warehouse. The work was carried out by the company's own employees. The cost of their labour €17,000 is included in factory wages. The materials, costing €33,000, were taken from stocks. No entry had been made in the books in respect of this extension.

(viii) Depreciation is provided on Fixed Assets as follows:
Factory Buildings at 2% of cost at 31/12/2008
Plant and Machinery at 20% of cost per annum from date of purchase to date of sale.
At the end of 2008 the company revalued the buildings at €600,000

(ix) The Directors are proposing that:
1. Provision should be made for Debenture Interest due.
2. Corporation tax of €8,000 be provided for.

You are required to prepare a:

(a) Manufacturing, Trading and Profit and Loss Account for the year ended 31/12/2008. (75)

(b) Balance Sheet as at 31/12/2008. (45)

(120 marks)

2. Tabular Statement

The financial position of Yeats Ltd on 1/1/2008 is shown in the following balance sheet:

Balance sheet as at 1/1/2008

	Cost	Dep. to date	Net
Fixed Assets	**€**	**€**	**€**
Goodwill (cost €45,000)			35,000
Land & buildings	660,000	52,800	607,200
Delivery vans	80,000	32,000	48,000
	740,000	84,800	690,200
Current Assets			
Stock	88,700		
Insurance prepaid	1,400		
Debtors	57,100	147,200	
Less Creditors: amount falling due within 1 year			
Creditors	79,600		
Bank	14,300		
Wages due	3,500	97,400	49,800
			740,000
Financed by			
Capital and Reserves			
Authorised – 800,000 ordinary shares @ €1 each			
Issued – 500,000 ordinary shares @ €1 each		500,000	
Share premium		100,000	
Profit and loss balance		140,000	740,000
			740,000

The following transactions took place during 2008:

Jan Yeats Ltd bought an adjoining business on 1/1/2008 which included buildings €260,000, delivery vans €52,000 and creditors €38,000. The purchase price was discharged by granting the seller 250,000 shares in Yeats Ltd at a premium 20c per share.

Feb A creditor who was owed €8,800 by Yeats Ltd accepted a delivery van, the book value of which was €9,000, in full settlement of the debt. This delivery van had cost €14,000.

March Received a bank statement on 1st March showing a direct debit of €9,600 to cover fire insurance for year ended 28/2/2009 and a credit transfer received of €7,700 to cover 11 months rent receivable in advance from March 1.

April Yeats Ltd decided to re-value the land and buildings on 1/4/2008 at €970,000. The land element of the new value is €140,000.

July A delivery van, which cost €15,000, was traded in against a new van costing €24,000. An allowance of €4,500 was made for the old van. Depreciation to date on the old van was €12,000.

Aug A payment of €1,750 was received from J. O'Brien, a debtor, whose debt had been previously written off and who now wishes to trade with Yeats Ltd again. This represents 70% of the original debt and O'Brien had undertaken to pay the remainder of the debt in January 2009. On the same day goods valued at €500 were sold on credit to O'Brien. This is a mark-up of 25%.

Dec Depreciation on buildings is charged at the rate of 2% per annum of value at 1/4/2008.
The depreciation charge for the year on delivery vans was €25,400.

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 31/12/2008.

(60 marks)

3. Revaluation of Fixed Assets

On 1 January 2004 Lyons Ltd owned freehold buildings which cost €290,000 and adjacent land which cost €210,000. 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 on 1/1/2000 and depreciation had been charged against profits in each of these four years (land is not depreciated).

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

Jan 1 2004	Re-valued land and buildings at €600,000. Of this revalued amount €240,000 was attributable to land.
Jan 1 2005	Sold for €280,000 land which cost €210,000 but was since re-valued on 1/1/2004.
Jan 1 2006	Purchased buildings for €400,000. During the year 2006, €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 €50,000 by Lyons Ltd for this work.
Jan 1 2007	Re-valued buildings owned at €1,056,000 (a 10% increase in respect of each building).
Jan 1 2008	Sold for €420,000 the buildings owned on 1/1/2004. The remaining buildings were re-valued at €750,000.

You are required to:

(a) Prepare the relevant ledger accounts in respect of the above transactions for each of the years ended 31 December 2004 to 31 December 2008.
(Bank Account and Profit and Loss Account **not** required) (55)

(b) Show the relevant extract from the Balance Sheet as at 31/12/2008 (5)

(60 marks)

4. Farm Accounts

Among the assets and liabilities of Tom and Anne Barry, who carry on a mixed farming business, on 1/1/2008 are: Land and Buildings at cost €510,000; Machinery at cost €90,000; Electricity due €450; Value of Cattle €80,000; Milk cheque due €2,600; Stock of Fuel €850 and Value of Sheep €20,000.

The following is a summary taken from their cheque payments and lodgements books for the year ended 31/12/2008.

Lodgements	**€**	**Cheque Payments**	**€**
Balance 1/1/2008	33,100	Fertiliser	2,500
Milk	29,000	General farm expenses	13,200
Sheep	24,000	Dairy wages	2,000
Cattle	16,000	Sheep	20,000
Lambs	14,300	Cattle	15,000
Calves	6,100	Light, heat and fuel	3,600
Single Payment – Sheep	2,500	Machinery	7,000
Single Payment – Cattle	3,000	Repairs	6,600
Wool	1,400	Veterinary fees and medicines	1,850
Forestry premium	1,900	Bank Loan plus 18 months' interest	
Six months interest from		at 4% per annum on 30/4/2008	9,540
3% Investment Bond	900	Balance 31/12/2008	50,910
	€132,200		€132,200

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

		Cattle	**Sheep**
(i)	Value of Livestock on 31/12/2008 was	€84,000	€23,000

(ii) Farm produce used by the family during the year – Milk €900; Lamb €500.

(iii) General farm expenses, fertiliser, and veterinary fees and medicines are to be apportioned 70% to 'Cattle and Milk' and 30% to 'Sheep'.

(iv) Other expenses are to be apportioned 80% to farm and 20% to household.

(v) Depreciation to be provided on the following:
Machinery at the rate of 10% of cost per annum.
Land and Buildings at 2% per annum. (Land at cost was €300,000).

(vi) Veterinary fees and medicines include a cheque for family health insurance for €1,100.

(vii) On 31/12/2008 a Milk cheque was due €1,600, Creditors for fertilisers amounted to €500 and Stock of Fuel was €600.

You are required to:

(a) Prepare a Statement of Capital for the farm on 1/1/2008. (20)

(b) Prepare an Enterprise Analysis Account for 'Cattle and Milk' and 'Sheep' for the year ended 31/12/2008. (20)

(c) Prepare a general Profit and Loss account for the year ended 31/12/2008. (12)

(d) (i) Which account, other than drawings, is affected by "farm produce used by family"? Explain your answer.
(ii) Prepare the Barrys' Drawings Account. (8)

(60 marks)

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

5. Interpretation of Accounts

The following figures have been taken from the Final Accounts of Watson plc, a manufacturer in the construction industry for the year ended 31/12/2008. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 6% preference shares at €1 each. The firm has already issued 450,000 ordinary shares and all of the 6% preference shares.

Trading and Profit and Loss account for year ended 31/12/2008

	€
Sales	980,000
Costs of goods sold	(785,000)
Operating expenses for year	(125,000)
Interest	(25,000)
Net Profit for year	45,000
Dividends paid	(37,000)
Retained Profit	8,000
Profit and Loss Balance 1/1/2008	40,000
Profit and Loss Balance 31/12/2008	48,000

Ratios and information for year ended 31/12/2007

Earnings per Ordinary Share	19.05c
Dividend per Ordinary Share	12.7c
Interest Cover	4 times
Quick Ratio	0.98 to 1
Return on Capital Employed	10.6%
Market value of an ordinary share	€1.30
Gearing	34%

Balance Sheet as at 31/12/2008

	€	€
Fixed Assets		670,000
Investments (market value 31/12/2008 – €140,000)		190,000
		860,000
Current Assets (including Stock €29,500 and Debtors €100,000)	147,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(159,000)	(12,000)
		848,000
Financed by		
10% Debentures (2012 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	450,000	
6% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	48,000	598,000
		848,000

Market value of one ordinary share €1.20

You are required to calculate the following for 2008:

(a) (i) The Cash Sales if the period of credit given to debtors is 2 months
(ii) Return on Capital employed
(iii) The Earnings per Share
(iv) The Dividend Yield
(v) How long it would take one Ordinary share to recover its value at present payout rate? (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. (40)

(c) Having assessed Watson plc what actions would you advise the company to take? (15)

(100 marks)

6. Published Accounts

Zodiac plc has an Authorised Capital of €950,000 divided into 650,000 Ordinary Shares at €1 each and 300,000 8% Preference shares at €1 each. The following Trial Balance was extracted from its books at 31/12/2008.

	€	€
Vehicles at cost	280,000	
Vehicles – Accumulated Dep. on 1/1/2008		112,000
Investment income		5,600
Buildings at cost	860,000	
Buildings – Accumulated Dep. on 1/1/2008		52,800
Debtors and Creditors	243,000	191,000
7% Investments	320,000	
Stock at 1/1/2008	81,000	
Patents at 1/1/2008	28,000	
Administrative expenses	212,000	
Distribution costs	198,000	
Purchases and Sales	1,340,000	2,005,000
Rental income		48,000
6% Debentures 2013/2014		300,000
Profit on sale of land		72,000
Bank	62,900	
VAT		66,000
Dividends paid	72,000	
Profit and Loss at 1/1/2008		84,000
Issued Capital		
Ordinary Shares		600,000
Preference Shares		150,000
Provision for bad debts		14,500
Debenture interest paid	15,000	
Patent Royalties		11,000
	3,711,900	3,711,900

The following information is relevant:

(i) Stock 31/12/2008 is €89,000

(ii) The Patent was acquired on 1/1/2004 for €84,000. It is being amortised over 6 years in equal instalments. The amortisation is to be included in cost of sales.

(iii) Provide for debenture interest due, investment interest due, auditors fees €7,400, directors fees €40,000 and corporation tax €62,000.

(iv) Depreciation is to be provided for on buildings, at a rate of 2% straight line and is to be allocated 40% distribution costs and 60% administrative expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at the rate of 20% of cost.

(v) During the year land adjacent to the company's premises, which had cost €60,000 was sold for €132,000. At the end of the year the company re-valued its buildings to €950,000. The company wishes to incorporate this value in this year's accounts.

(vi) Included in administrative expenses is the receipt of €17,000 for discount.

You are required:

(a) To prepare the published profit and loss account for the year 31/12/2008 and a balance sheet as at that date 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. Interest payable
4. Tangible fixed assets

(85)

(b) (i) State three items of information that must be included in a Director's Report.
(ii) Explain the term "exceptional item" and give an example. (15)

(100 marks)

7. Incomplete Records

On 1/1/2008, E. Fuller purchased a business for €400,000 which included the following tangible assets and liabilities: Premises €292,000; Stock €36,000; Debtors €32,200; 3 months Rates Prepaid €450; Equipment €20,000, Trade Creditors €35,700; Wages Due €1,200 and 5% Investments €50,000.

During 2008 Fuller did not keep a full set of accounts but estimates that gross profit was 20% of sales and was able to supply the following information on 31/12/2008.

(i) Each week Fuller took goods from stock to the value of €80 and cash €170 for household expenses.

(ii) On 1/8/2008 Fuller borrowed €120,000 which, together with €30,000 of Fuller's personal funds, was used to purchase an adjoining premises. It was agreed that the sum borrowed would be repaid in 20 equal half-yearly instalments. The first instalment becomes due on 1/2/2009. Interest was to be charged at the rate of 6% per annum to be paid monthly at the end of each month.

(iii) During the year Fuller lodged to the business bank account, EU grant €6,000 and Investment Interest €2,500.

Fuller made the following payments from the business bank account during the year**:**
Light and Heat €7,500, Interest €2,000, Equipment (purchased on 1/7/2008) €15,000, Delivery Vans (purchased on 1/9/2008) €30,000, Wages and General Expenses €80,000, Rates for 12 months €7,000. The payment for wages and general expenses includes €3,000 petrol bill for Fuller's private use.

(iv) Fuller estimated that 20% of rates *payable* for the year, 20% of light and heat *used* and 25% of interest *payable* should be attributed to the private use.

(v) Fuller has decided to set up a Provision for Bad Debts amounting to 3% of debtors and to charge depreciation at 15% per annum on the delivery vans and 10% per annum on equipment held on 31/12/2008.

(vi) Included in the assets and liabilities of the firm on 31/12/2008 were stock €20,500 (which includes a stock of heating oil €300), debtors €34,000, trade creditors €35,400, bank overdraft €5,400 and electricity due €460.

You are required to prepare, with workings, a

(a) Statement/Balance Sheet showing Fuller's profit or loss for the year ended 31/12/2008. (50)

(b) Trading, Profit and Loss Account, in as much detail as possible, for the year ended 31/12/2008. (40)

(c) Summary of the advice you would give to Fuller in relation to the information given above**.** (10)

(100 marks)

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

8. Job Costing

Mc Cormack Ltd has three departments – Processing, Assembly and Finishing. The following costs relate to 2008.

	Total	Processing	Assembly	Finishing
	€	€	€	€
Indirect Materials	360,000	170,000	100,000	90,000
Indirect Labour	500,000	300,000	120,000	80,000
Machine Maintenance	28,000			
Plant Depreciation	80,000			
Light and Heat	70,000			
Rent and Rates	64,000			
Factory Canteen	50,000			

The following information relates to the three departments.

	Total	Processing	Assembly	Finishing
Floor space in m^2	16,000	8,000	5,000	3,000
Volume in m^3	42,000	24,000	12,000	6,000
Plant valuation at book value	€500,000	€300,000	€150,000	€50,000
Machine hours	80,000	40,000	30,000	10,000
Number of employees	100	60	30	10
Labour hours	140,000	80,000	35,000	25,000

Job No. 510 has just been completed. The details are:

	Direct Materials	Direct Labour	Machine Hours	Labour Hours
	€	€		
Processing	10,000	2,000	60	50
Assembly	2,400	4,600	30	90
Finishing	-	800	6	12

The company budgets for a profit margin of 25%.

You are required to:

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

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

(c) Compute the selling price of Job No. 510.

(d) (i) Explain what is meant by a step fixed cost and give an example.
(ii) Outline two differences in focus between Management and Financial accounting.

(80 marks)

9. Cash Budgeting

Greene Ltd is preparing to set up business on 1/1/2010 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2010.

Sales Budget

	January	**February**	**March**	**April**	**May**	**June**
Sales units	8,000	8,500	10,000	11,000	11,500	10,500
Sales revenue	€240,000	€255,000	€300,000	€330,000	€345,000	€315,000

(i) The cash collection pattern from sales is expected to be:

Cash Customers 30% of sales revenue will be for immediate cash.

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

(ii) The product requires 4 kg of material X, which costs €1.50 per kg.

(iii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.

(iv) Stocks of raw materials, sufficient for 10% of the following month's requirements in kgs, are held at the end of each month.

(v) One month's credit is received from suppliers.

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

Expected Costs Wages €20,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €29,000 per month, payable as incurred.

Capital Costs Equipment will be purchased in January costing €30,000 which will have a useful life of 5 years. To finance this purchase a loan of €24,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2010.

You are required to:

(a) Prepare a Production Budget for the four months January to April, 2010.

(b) Prepare a Materials Purchase Budget (in units and €) for the four months January to April, 2010.

(c) Prepare a Cash Budget for the 4 months January to April, 2010.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2010 (if the budgeted cost of a unit of finished goods is €20).

(e) Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010.

(80 marks)

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