Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2014

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 16 JUNE – AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

Section 1: **Financial Accounting** (120 marks).
This section has four 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 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. 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 Mike Mc Mahon on 31/12/2013:

	€	€
Buildings (Cost €640,000)	545,000	
Delivery Vans (Cost €90,000)	78,000	
3% Investments (01/04/2013)	100,000	
6% Fixed Mortgage (including increase of €60,000 received on 01/04/2013)		200,000
Patents	40,400	
Debtors and Creditors	50,000	110,000
Purchases and Sales	530,400	695,000
Stock 01/01/2013	64,200	
Advertising	2,500	
Salaries and general expenses (incorporating suspense)	90,000	
Provision for bad debts		1,400
Discount (net)	1,800	
Rent	10,000	
Mortgage interest paid for the first three months	1,500	
Insurance	5,750	
VAT		4,200
Bank		16,400
PAYE, PRSI & USC		3,800
Drawings	41,250	
Capital		530,000
	1,560,800	1,560,800

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

(i) Stock at 31/12/2013 at cost was €80,000. No record has been made for 'goods in transit' on 31/12/2013. The invoice for these goods had been received showing the recommended retail selling price of €4,800 which is cost plus 20%.

(ii) Provide for depreciation on vans at the annual rate of 10% of cost from date of purchase to the date of sale.
NOTE: On 31/3/2013 a delivery van which cost €40,000 on 30/9/2010 was traded in against a new van which cost €46,000. An allowance of €16,000 was given 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 arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and €2,000 paid towards PAYE, PRSI and USC entered only in the bank account.

(iv) Goods with a retail selling price of €15,000 were returned to a supplier. The selling price was cost plus 20%. 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. 25% of the mortgage interest refers to the private dwelling.

(vi) Patents, which incorporate 3 months investment income, are to be written off over a five year period, commencing in 2013.

(vii) Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €720,000 on 31/12/2013.

(viii) Goods withdrawn by the owner for private use during the year, with a retail value of €3,000, which is cost plus 25%, were omitted from the books.

(ix) A cheque for €800 had been received on 31/12/2013 in respect of a debt of €800 previously written off as bad. 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 31/12/2013 (75)

(b) Balance Sheet as at 31/12/2013. (45)

(120 marks)

2. **Cash Flow Statement**

The following are the Balance Sheets of Doyle plc as at 31/12/2013 and 31/12/2012 together with an abridged Profit and Loss Account for the year ended 31/12/2013.

Abridged Profit and Loss Account for the year ended 31/12/2013	**€**
Operating Profit	185,000
Interest for the year	(16,000)
Profit before taxation	169,000
Taxation for the year	(45,000)
Profit after taxation	124,000
Dividends paid	(60,000)
Retained profits for the year	64,000
Retained profits on 01/12/2013	150,000
Retained profits on 31/12/2013	214,000

Balance Sheet as at	**31/12/2013**		**31/12/2012**	
Fixed Assets				
Land and Buildings at cost	900,000		825,000	
Less accumulated depreciation	(70,000)	830,000	(50,000)	775,000
Machinery at cost	420,000		495,000	
Less accumulated depreciation	(270,000)	150,000	(250,000)	245,000
		980,000		1,020,000
Financial Assets				
Quoted Investments at cost		50,000		30,000
Current Assets				
Stock	215,000		192,000	
Debtors	178,000		170,000	
Government Securities	20,000		----	
Bank	----		5,000	
Cash	4,000		3,000	
	417,000		370,000	
Less Creditors: **amounts falling due within 1 year**				
Trade creditors	290,000		285,000	
Interest due	3,000		----	
Taxation	80,000		75,000	
Bank	6,000		----	
	(379,000)		(360,000)	
Net Current Assets		38,000		10,000
		1,068,000		1,060,000
Financed by				
Creditors: **amounts falling due after more than 1 year**				
10% Debentures		160,000		240,000
Capital and Reserves				
Ordinary Shares @ €1 each	690,000		670,000	
Share Premium	4,000		----	
Profit and Loss account	214,000	908,000	150,000	820,000
		1,068,000		1,060,000

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 €30,000.
3. Depreciation charged for the year on machinery in arriving at the operating profit was €40,000.

You are required to:

(a) Prepare the Cash Flow Statement of Doyle plc for the year ended 31/12/2013 including Reconciliation Statement(s). (51)

(b) (i) Explain the reasons why Doyle plc, who has an operating profit of €185,000, has generated a greater net cash inflow from operating activities.

(ii) List **three** accounting obligations of a large public company under the Companies Act. (9)

(60 marks)

3. Published Accounts

Danner plc has an authorised share capital of €900,000 divided into 700,000 ordinary shares at €1 each and 200,000 4% preference shares at €1 each. The following trial balance was extracted from its books at 31/12/2013:

	€	€
Buildings at cost	750,000	
Buildings – Accumulated Depreciation on 01/01/2013		81,000
Vehicles at cost	240,000	
Vehicles – Accumulated Depreciation on 01/01/2013		25,000
Quoted Investments at cost (market value €110,000)	250,000	
Unquoted Investments at cost (directors' value €60,000)	70,000	
Debtors and Creditors	290,000	198,000
Stock 01/01/2013	82,000	
Patent 01/01/2013	84,000	
Administrative expenses	230,000	
Distribution costs	260,000	
Purchases and Sales	1,000,500	1,770,000
Rental income		30,000
Profit on sale of land		20,000
Dividends paid	22,000	
Bank	81,000	
VAT		65,000
5% Debentures 2018/2019		350,000
Profit & Loss account at 01/01/2013		41,000
Investment income received – quoted		2,000
unquoted		1,500
Issued Capital		
Ordinary Shares		550,000
4% Preference Shares		200,000
Provision for bad debts		20,000
Debenture interest paid	5,000	
Discount		11,000
	3,364,500	3,364,500

The following information is relevant:

(i) Stock on 31/12/2013 is €90,000.

(ii) During the year, land adjacent to the company's premises, which had cost €110,000 was sold for €130,000. At the end of the year the company revalued its buildings at €900,000. The company wishes to incorporate this value in this year's accounts.

(iii) Provide for debenture interest due, auditors' fees €15,000, directors' fees €50,000 and corporation tax €90,000.

(iv) Included in administrative expenses is the receipt of €3,000 for patent royalties.

(v) Depreciation is to be provided for on buildings at a rate of 2% straight line and is to be allocated 25% to distribution costs and 75% to 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 01/01/2010 for €120,000. It is being amortised over 10 years in equal instalments. The amortisation is to be included in cost of sales.

Required:

(a) Prepare the Published Profit & Loss account for the year 31/12/2013, 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. Tangible fixed assets. (51)

(b) (i) State **three** items of information that must be included in a Directors' Report.

(ii) Explain the term 'Exceptional Item' and use an example to support your answer. (9)

(60 marks)

4. Creditors Control Account

The Creditors Ledger Control Account of B. Young showed the following balances: €63,552 cr and €490 dr on 31/12/2013. 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) Cash purchases by Young of €890 had been debited to a supplier's account.

(ii) Discount €120 disallowed by a supplier had been treated as discount received €210 in the books.

(iii) A creditor had charged Young interest amounting to €110 on an overdue account. The only entry in the books for this interest had been €11 debited to the creditor's account. After a protest this interest was reduced to €50 but this reduction had not been reflected in the accounts.

(iv) Young had received an invoice from a supplier for €860. This had been entered in the appropriate day book as €680. However when posting from the day book to the ledger no entry had been made in the personal account.

(v) Young had returned goods €400 to a supplier and entered this correctly in the books. However a credit note arrived showing a deduction of 5% for a restocking charge. The total amount of this credit note was credited to the creditor's account. In relation to the credit note no *other* entry was made in the books.

(vi) A credit note was received from a supplier for €313. The only entry made in the books was €31 credited to the supplier's account.

You are required to:

(a) Prepare the Adjusted Creditors Ledger Control Account. (24)
(b) Prepare the Adjusted Schedule of Creditors showing the original balance. (28)
(c) Explain (i) Contra item.
(ii) How 'an Opening Balance of €490' above might arise. (8)

(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 Shannon plc, a company involved in the construction industry for the year ended 31/12/2013. The company has an authorised capital of €700,000 made up of 500,000 ordinary shares at €1 each and 200,000 5% preference shares at €1 each. The firm has already issued 350,000 ordinary shares and 100,000 of the preference shares.

Trading and Profit and Loss Account for year ended 31/12/2013

	€
Sales	950,000
Costs of goods sold	(755,000)
Operating expenses for year	(130,000)
Interest for year	(18,000)
Net Profit for year	47,000
Dividends paid	(40,000)
Profit and Loss balance 01/01/2013	35,000
Profit and Loss balance 31/12/2013	42,000

Ratios and information for year ended 31/12/2012

Earnings per ordinary share	15c
Dividend per ordinary share	12c
Interest cover	4 times
Quick ratio	0.90:1
Market value of one ordinary share	€1.35
Return on capital employed	10.1%
Gearing	48%
Dividend cover	1.25 times
Dividend yield	8.9%

Balance Sheet as at 31/12/2013

	€	€	€
Fixed Assets			
Intangible Assets			100,000
Tangible Assets			480,000
Investments (market value €200,000)			210,000
			790,000
Current Assets (inc. Closing Stock €62,000 & Debtors €43,000)		112,000	
Less Creditors: **amounts falling due within 1 year**			
Trade Creditors	65,000		
Bank overdraft	45,000	(110,000)	2,000
			792,000
Financed by			
6% Debentures (2018/2019)			300,000
Capital and Reserves			
Ordinary Shares @ €1 each		350,000	
5% Preference Shares @ €1 each		100,000	
Profit and Loss balance		42,000	492,000
			792,000

Market value of one ordinary share **€1.30**

You are required to calculate the following for 2013: (where appropriate calculations should be made to **two** decimal places).

(a) (i) Cash sales if the period of credit given to debtors is 2 months.
(ii) Return on capital employed.
(iii) The earnings per ordinary share in 2013.
(iv) The dividend yield.
(v) How long would it take one ordinary share to recoup (recover) its 2013 market price based on present dividend payout? (50)

(b) Advise the bank manager if a loan of €350,000, on which an interest rate of 9% would be charged, should be granted to Shannon plc for future expansion. Use relevant ratios and other information to support your answer. (40)

(c) Explain the difference between the terms 'Liquidity' and 'Solvency' when used in Ratio Analysis. Refer to relevant ratios in your explanation. (10)

(100 marks)

6. Service Firm

The following were included in the assets and liabilities of the Serenity Gym and Health Centre Ltd, on 01/01/2013:
Buildings and Grounds €620,000; Equipment €70,000; Vehicles at cost €90,000; Stock in shop €3,400; Stock of heating oil €1,900; Creditors for supplies to Gym and Health Centre €1,600; 5% Investments €40,000; Contract cleaning prepaid €400; Clients' deposits paid in advance €6,000, Authorised Capital €600,000, Issued Capital €450,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2013.

The following is a Receipts and Payments Account for the year ended 31/12/2013:

Receipts and Payments Account of Serenity Gym and Health Centre Ltd for year ended 31/12/2013

	€		€
Balance at bank 01/01/2013	6,000	Laundry	2,500
Clients' fees	330,500	Telephone	1,600
Investment income	1,200	Wages & salaries	85,400
Shop receipts	45,000	Repayment of €50,000 loan on 01/04/2013 with 15 months interest	56,000
Balance 31/12/2013	135,000	Equipment	15,000
		New Extension	230,000
		New Vehicle	50,000
		Contract cleaning	3,600
		Light and heat	3,400
		Insurance	6,800
		Purchases – shop	28,000
		Purchases – supplies	35,400
	517,700		517,700

The following information and instructions are to be taken into account:
(i) Closing stock at 31/12/2013: Shop €1,400, Heating oil €600.
(ii) Cleaning is done, under contract, payable monthly in advance and includes a payment of €500 for January 2014.
(iii) Clients' fees include €6,500 for 2014. Fees due from Clients at 31/12/2013 were €800.
(iv) Wages and salaries include €22,000 per annum paid to the secretary, who also runs the shop. It is estimated that 40% of this salary and €400 of the light and heat, €800 of the insurance and €500 of the telephone is attributable to the shop.
(v) Creditors for supplies to the Gym & Health Centre at 31/12/2013 were €2,500.
(vi) Electricity due on 31/12/2013 was €360.
(vii) Depreciation to be provided as follows:
Buildings 2% of cost for the full year.
Equipment 10% of cost for the full year.
Vehicles 20% of cost per annum from date of purchase to date of sale.
On 01/07/2013 a vehicle which cost €40,000 on 01/01/2010 was traded in against a new vehicle which cost €59,000. An allowance of €9,000 was given on the old vehicle.
(viii) On 31/12/2013 the Serenity Gym and Health Centre Ltd decided to revalue buildings at €900,000.

Required:
(a) Calculate the company's reserves (profit and loss balance) on 01/01/2013. (18)
(b) Calculate the profit/loss from the shop for the year ended 31/12/2013. (10)
(c) Prepare a Profit and Loss Account for the year ended 31/12/2013. (36)
(d) Prepare a Balance Sheet on 31/12/2013. (30)
(e) The owners of the Serenity Gym and Health Centre Ltd have proposed a 15% increase in clients' fees to help clear the bank overdraft. What arguments would you make against this proposal? (6)

(100 marks)

7. Correction of Errors and Suspense Account

The Trial Balance of E Cagney, a grocer, failed to agree on 31/12/2013. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2013

	€	€	€
Fixed Assets			
Premises		650,000	
Equipment		35,000	
Motor Vehicles		72,000	757,000
Current Assets			
Stock (including suspense)		185,400	
Debtors		36,300	
Cash		1,500	
		223,200	
Less Creditors: amounts falling due within 1 year			
Creditors	58,500		
Bank	32,000	(90,500)	132,700
			889,700
Financed by:			
Capital		810,000	
Add: Net profit		87,200	
		897,200	
Less Drawings		(7,500)	889,700
			889,700

On checking the books, the following errors were discovered:

(i) A debtor, who owed Cagney €830, sent a cheque for €780 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 10c in the €1.

(ii) Cagney had returned goods, previously purchased on credit for €15,800 from a supplier. Cagney entered this transaction as €18,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.

(iii) A cheque for €4,260 was paid by Cagney out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2014. No entry had been made in the books.

(iv) Cagney won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250. No entry had been made in the books.

(v) Cagney's private car valued at €8,800 was presented to the business. He took a used freezer from the business for an agreed value of €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had a book value of €1,300.

You are required to:

(a) Journalise the necessary corrections. (54)
(b) Show the Suspense Account. (6)
(c) Prepare a statement showing the correct net profit. (14)
(d) Prepare a corrected Balance Sheet. (20)
(e) Identify **three** types of errors that affect the balancing of a Trial Balance. (6)

(100 marks)

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

8. Marginal and Absorption Costing

(a) Murphy Ltd, produces a single product. The company's profit and loss account for the year ended 31/12/2013, during which 16,000 units were produced and sold, was as follows:

	€	€
Sales (16,000 units)		480,000
Materials	120,000	
Direct labour	110,000	
Factory overheads	60,000	
Administration expenses	105,000	395,000
Net profit		85,000

The materials, direct labour and ⅓ of the factory overheads are variable costs. €65,000 of the administration expenses are fixed.

You are required to calculate:

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

(ii) Roughly sketch a graph, showing **your** break-even point.

(iii) The profit the company would make in 2014 if it reduced its selling price by 5%, increased advertising by €5,000 and thereby increased sales to 19,000 units, with all other cost levels and percentages remaining unchanged.

(iv) The number of units that must be sold at €26 per unit to provide a profit of 20% of the sales revenue received from these same units.

(v) The profit the company would make in 2014 if a commission of 5% of sales is given to sales personnel and €1 extra per unit spent on new packaging, thereby increasing the sales to 17,000 units at €34 per unit.

(b) Barry Ltd, produced 10,000 units of product A during the year ended 31/12/2013. 9,000 of these units were sold at €4 per unit. The production costs were as follows:

Direct Materials	€0.60 per unit
Direct Labour	€0.50 per unit
Variable Overhead	€0.40 per unit
Fixed Overhead Cost for the year	€4,000

You are required to:

(i) Prepare Profit and Loss statements under Marginal Costing and Absorption Costing principles for Barry Ltd.

(ii) Outline the differences between Marginal and Absorption costing.
Indicate which method should be used for financial accounting purposes and why.

(80 marks)

9. Budgeting

Crowley Ltd has recently completed its annual sales forecast to December 2015. It expects to sell two products – Micro at €240 and Excel at €300.

All stocks are to be reduced by 20% from their opening levels by the end of 2015 and are valued using the FIFO method.

	Micro	**Excel**
Sales are expected to be	11,000 units	6,500 units

Stocks of finished goods on 01/01/2015 are expected to be:

Micro	800 units at €130 each
Excel	550 units at €150 each

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

	Micro	**Excel**
Material X	6 kgs	4 kgs
Material Y	5 kgs	7 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 01/01/2015 are expected to be:

Material X	7000 kgs @ €1.80 per kg
Material Y	5000 kgs @ €3.60 per kg

The expected prices for raw materials during 2015 are:

Material X	€2 per kg
Material Y	€4 per kg

The skilled labour rate is expected to be €12 per hour.

Production overhead costs are expected to be:

Variable	€5	per skilled labour hour
Fixed	€180,400	per annum

Required:

(a) Prepare a Production Budget (in units).
(b) Prepare a Raw Materials Purchases Budget (in units and €).
(c) Prepare a Production Cost/Manufacturing Budget.
(d) Prepare a Budgeted Trading Account *(if the budgeted cost of a unit of Micro and Excel is €160 and €184 respectively)*.
(e) (i) Define what is meant by a Cash Budget and explain **two** advantages of a Cash Budget.
(ii) The Principal Budget factor is sales demand in most organisations. State **two** other factors that could also be considered to be the Principal Budget factor.

(80 marks)

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