Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2005

A C C O U N T I N G - H I G H E R L E V E L

(400 marks)

MONDAY, 20TH JUNE 2005 – AFTERNOON, 2.00 p.m. to 5.00 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. CompanyFinal Accounts including a Manufacturing Account

James Ltd., a manufacturing firm, has an Authorised Capital of €800,000 divided into 550,000 Ordinary Shares at €1 each and 250,000 8% Preference Shares at €1 each.
The following Trial Balance was extracted from its books at 31/12/2004:

	€	€
Factory Buildings (Cost €450,000)	405,000	
Plant and Machinery (Cost €260,000)	156,000	
Discount (Net)		4,000
Profit and Loss Balance 1/1/2004		82,300
Stocks on hand 1/1/2004		
Finished Goods	85,500	
Raw Materials	48,000	
Work in Progress	24,150	
Sales		935,000
General Factory Overheads	50,300	
Patents	70,000	
Purchase of Raw Materials	450,280	
Sale of Scrap Materials		5,500
Hire of Special Equipment	12,000	
Debtors and Creditors	94,400	57,700
Interim Dividends (6 months)	17,000	
Bank		11,450
Direct Factory Wages	198,220	
9% Debentures (including €30,000 issued on 1/4/2004)		100,000
VAT		12,730
Issued Share Capital – Ordinary Shares		300,000
– Preference Shares		200,000
Carriage on Raw Materials	5,510	
Selling Expenses	68,420	
Administration Expenses (including Suspense)	23,900	
	1,708,680	1,708,680

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

(i) Stocks on hand at 31/12/2004:

	€
Finished goods	92,000
Raw Materials	51,000
Work in Progress	28,550

The figure for Finished goods includes items which cost €7,000 to produce, but now have a sales value of €4,500.

(ii) Included in the figure for Sale of Scrap Materials is €1,800 received from the sale of an old machine on 30/6/2004. This machine had cost €22,000 on 1/4/2000. The cheque had been entered in the bank account. This was the only entry made in the books.

(iii) The Suspense figure arises as a result of discount allowed €1,000 entered only in the Debtors account.

(iv) It was discovered that Finished Goods, which cost €8,000 to produce, were invoiced to a customer on a "sale or return basis". These goods had been entered in the books as a credit sale at cost plus 20%.

(v) During 2004 James Ltd. built an extension to the factory. The work was carried out by the company's own employees. The cost of their labour €40,000 was included in factory wages. The cost of materials used €18,000 is included in purchases. No entry was made in the books in respect of this extension.

(vi) Depreciation is provided on Fixed Assets as follows:
Plant and Machinery – 20% of cost per annum from date of purchase to date of sale.
Factory Buildings – 2% of cost at 31/12/2004.

(vii) The Directors are proposing that:
a) The Preference dividend due be paid.
b) The total Ordinary dividend for the year should be 9c per share.
c) Provision should be made for Debenture Interest.
d) Corporation Tax of €10,000 be provided for.

(viii) Goods should be transferred from factory at Current Market Value €800,000.

You are required to prepare a:

(a) Manufacturing, Trading and Profit and Loss Account for the year ended 31/12/2004. (75)
(b) Balance Sheet as at 31/12/2004. (45)

(120 marks)

2. Creditors Control Account

The Creditors Ledger Control Account of N. Nolan showed the following balances - €62,125 cr and €772 dr on 31/12/2004. 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) An invoice received from T. Murphy showing the purchase of goods for €1,200 less trade discount 20% had been entered correctly in the appropriate day book but had not been posted to the personal account.

(ii) A credit note was received from a supplier for €277. The only entry made in the books was €27 credited to a creditor's account.

(iii) A creditor had charged Nolan interest of €85 on an overdue account. The only entry made in the books for this interest had been €25 debited to the creditor's account. After a complaint by Nolan this charge had been reduced to €45 but this reduction had not been reflected in the books.

(iv) Cash purchases by N. Nolan of €760 had been debited to a supplier's account.

(v) Nolan had returned goods €480 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 credited to the creditor's account but no other entry was made in the books.

(vi) Discount disallowed by a supplier of €170 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) Explain why Creditors' Control Accounts are prepared.	(6)
	(60 marks)

3. Depreciation of Fixed Assets

Ace Haulage Ltd. prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/2003, Ace Haulage Ltd. owned the following vehicles:

No. 1 purchased on 1/1/1999 for €70,000
No. 2 purchased on 1/8/2000 for €80,000
No. 3 purchased on 1/4/2001 for €88,000

On 1/5/2003, Vehicle No. 2 was crashed and traded in against a new vehicle costing €90,000. The company received compensation to the value of €30,000 and the cheque paid for the new vehicle was €75,000. On 1/7/2004, Vehicle No. 1 was traded in for €24,000 against a new vehicle costing €95,000. Vehicle No. 1 had a refrigeration unit fitted on the 1/1/2001 costing €20,000. This refrigeration unit was depreciated at the rate of 30% of cost for the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2003 and 2004:

(a)	The Vehicles Account.	(6)
(b)	The Vehicle Disposal Account.	(16)
(c)	The Provision for Depreciation Account.	(32)
(d)	What factors are taken into account in arriving at the annual depreciation charge.	(6)
		(60 marks)

4. Service Firm

The following were included in the assets and liabilities of M. Casey, a dentist, on 1/1/2004:

Surgery €120,000; Equipment €60,000; Motor Car €24,000; Stock of Dental Materials €5,400; Owed from Medical Insurance Scheme €5,700; Creditors for Dental Materials €3,200; 5% Investments €80,000; Fees due from Private Patients €2,100; Capital €219,160.

The following is a Receipts and Payments Account for the year ended 31/12/2004:

Receipts and Payments Account of M. Casey for year ended 31/12/2004

		€			€
Jan. 1	Balance at Bank	6,760		Dental Materials	14,000
	Receipts from Private Patients	96,000		Telephone and Postage	3,100
	Investment Income	3,600		Wages of Receptionist	15,000
	Medical Insurance Scheme	23,540		Repayment of €40,000 loan on 1/5/2004 with 3 years interest	43,600
	Sale of Equipment (cost €18,000)	9,000		Equipment	22,000
				Light and Heat	4,000
				Insurance	2,360
				Technician's Fees	13,000
				Drawings	18,500
			Dec. 31	Balance at Bank	3,340
		138,900			138,900

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

(i) Stock of Dental Materials on 31/12/2004 was €4,900.

(ii) 70% of the Light and Heat and the Telephone and Postage relate to the dental practice with the remainder for personal use.

(iii) Depreciate fixed assets on 31/12/2004 as follows:

Equipment	20% of cost.
Surgery	2% of cost.
Motor Car	20% of cost.

Note: Fixed assets are given at cost and depreciation on them has been accumulated for 2 years to 31/12/2003. There is no depreciation on Equipment sold in the year of disposal.

(iv) Amounts due from Medical Insurance Scheme and Private Patients are €4,800 and €1,400 respectively.

(v) Creditors for Dental Materials on 31/12/2004 amounted to €3,500.

You are required to prepare:

(a) An Income and Expenditure Account for the year ended 31/12/2004. (35)
(b) A Balance Sheet as at 31/12/2004. (25)

(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 Equip Ltd., a manufacturer of sports equipment, for the year ended 31/12/2004.

Trading and Profit and Loss account for year ended 31/12/2004

	€
Sales	950,000
Costs of goods sold	740,000
Operating expenses for year	120,000
Interest for year	18,000
Net Profit for year	72,000
Proposed dividends	52,000
Profit and Loss Balance 1/1/2004	42,000
Profit and Loss Balance 31/12/2004	62,000

Ratios and information for year ended 31/12/2003

Earnings per Ordinary Share	13c
Dividend per Ordinary Share	7.5c
Current Ratio	1.8:1
Quick Ratio	1.2:1
Market Value of one Ordinary Share	€2
Return on Capital Employed	9.5%
Return on Equity Funds	12%

Balance Sheet as at 31/12/2004

		€
Intangible Assets		90,000
Tangible Assets		480,000
Investments (market value €90,000)		100,000
		670,000
Current Assets (inc. Closing Stock €110,000)	354,000	
Trade Creditors	130,000	
Proposed Dividends	52,000	172,000
		842,000
10% Debentures (2006/2007)	180,000	
Issued Capital		
Ordinary Shares @ €1 each	400,000	
8% Preference Shares @ €1 each	200,000	
Profit and Loss Balance	62,000	842,000

Market Value of one Ordinary Share €2.08

You are required to answer the following:

(a) (i) The return on capital employed in 2004.
(ii) The opening stock if the rate of stock turnover is 8 (based on average stock).
(iii) The earnings per ordinary share in 2004.
(iv) How long would it take one ordinary share to recover its 2004 market price (assume current performance is maintained)?
(v) The ordinary dividend cover in 2004. (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) The gross profit percentage for 2003 was 32%. Give 5 different explanations for the increase/decrease in 2004. (15)

(100 marks)

6. Published Accounts

Gayle Ltd. has an Authorised Capital of €800,000 divided into 600,000 Ordinary Shares at €1 each and 200,000 9% Preference Shares at €1 each. The following Trial Balance was extracted from its books at 31/12/2004.

	€	€
Vehicles at cost	220,000	
Vehicles – Accumulated Dep on 1/1/2004		33,000
Investment Income		10,000
Buildings at cost	700,000	
Buildings – Accumulated Dep on 1/1/2004		42,000
Debtors and Creditors	289,000	163,000
9% Investments	240,000	
Stock at 1/1/2004	73,000	
Patent at 1/1/2004	40,000	
Administration expenses	172,000	
Purchases and Sales	1,150,000	1,880,000
Rental Income		60,000
8% Debentures 2008/2009		200,000
Distribution Costs	248,000	
Profit on Sale of Land		65,000
Bank	48,000	
VAT		71,000
Interim Dividends	24,000	
Profit and Loss at 1/1/2004		52,000
Issued Capital		
Ordinary Shares		400,000
Preference Shares		200,000
Provision for Bad Debts		27,000
Debenture Interest Paid	12,000	
Discount		13,000
	3,216,000	3,216,000

The following information is relevant:

(i) Stock on 31/12/2004 is €96,000.
(ii) The Patent was acquired on 1/1/2000 for €80,000. It is being amortised over 8 years in equal instalments. The amortisation is to be included in cost of sales.
(iii) On 1/7/2004, the Ordinary shareholders received an interim dividend of €15,000 and the Preference shareholders received €9,000. The directors propose the payment of the Preference dividend due and a final dividend on Ordinary shares to bring that total dividend up to 7c per share.
(iv) Provide for Debenture Interest due, Investment Interest due, Auditors fees €9,500, Directors fees €50,000 and Corporation tax €87,000.
(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 Administration expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at the rate of 20% of cost.
(vi) During the year land adjacent to the company's premises, which had cost €80,000 was sold for €145,000. At the end of the year the company re-valued its Buildings at €900,000. The company wishes to incorporate this value in this year's accounts.
(vii) Included in Administration expenses is the receipt of €12,000 for Patent royalties.

You are required to:

(a) Prepare the published Profit and Loss account for the year 31/12/2004 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. Dividends.
5. Tangible fixed assets. (84)

(b) State three items of information that must be included in a Directors' Report. (9)
(c) Explain the term "exceptional item" and give an example. (7)

(100 marks)

7. Incomplete Records

On 1/1/2004, J. Connolly purchased a business for €195,000 consisting of the following tangible assets and liabilities: Premises €162,000; Stock €15,200; Debtors €17,000; 3 months premises Insurance prepaid €860; Trade Creditors €18,700 and Wages due €1,700.

During 2004 Connolly did not keep a full set of accounts but was able to supply the following information on 31/12/2004.

Cash Payments:	Lodgements €96,000, General Expenses €23,700, Purchases €53,000.
Bank Payments:	Equipment €22,000, Creditors €33,100, Light and Heat €5,800, Interest €2,325, annual Premises Insurance Premium €6,000, Standing Order for Charitable Organisation €3,200, Vehicle €26,000, Rent for one year €2,400.
Bank Lodgements:	Debtors €34,000, Cash €96,000, Dividends €3,800.

Connolly took goods from stock to the value of €100 and cash €80 per week for household expenses during the year.

Connolly borrowed €84,000 on 1/7/2004, part of which was used to purchase an adjoining warehouse costing €70,000. It was agreed that the sum borrowed would be repaid in 12 equal instalments on the 1st June each year. Interest was to be charged at the rate of 10% per annum on the initial sum to be paid monthly at the end of each month.

The figure for Rent was in respect of an adjoining building rented by Connolly on 1/10/2004. It was payable in advance and Connolly estimated that ⅓ of the building was used as a private residence and that 20% of the Light and Heat used should also be attributed to the private section of the premises.

Included in the assets and liabilities of the firm on 31/12/2004 were: Stock €17,300 (including stock of heating fuel €300), Debtors €18,100, Trade Creditors €15,500, Cash €650, Electricity due €720.

You are required to show, with workings, the:

(a) Trading and Profit and Loss Accounts for the year ended 31/12/2004. (52)
(b) Balance Sheet as at 31/12/2004. (40)

(c) What additional information would be available if Connolly's accounts were prepared using the "double entry" system? (8)

(100 marks)

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

8. Job Costing

Buckley Ltd. has three Departments – Processing, Assembly and Finishing. The following costs relate to 2005.

	Total	**Processing**	**Assembly**	**Finishing**
	€	**€**	**€**	**€**
Indirect materials	250,000	120,000	70,000	60,000
Indirect labour	400,000	260,000	80,000	60,000
Light and heat	90,000			
Rent and rates	54,000			
Machine maintenance	24,000			
Plant depreciation	60,000			
Factory canteen	45,000			

The following information relates to the three Departments.

	Total	**Processing**	**Assembly**	**Finishing**
Floor space in square metres	12,000	8,000	3,000	1,000
Volume in cubic metres	36,000	18,000	12,000	6,000
Plant valuation at book value	€500,000	€300,000	€120,000	€80,000
Machine hours	50,000	25,000	20,000	5,000
Number of employees	80	40	30	10
Labour hours	120,000	60,000	45,000	15,000

Job No. 316 has just been completed. The details are:

	Direct Materials	**Direct Labour**	**Machine Hours**	**Labour Hours**
	€	**€**		
Processing	8,000	1,000	40	30
Assembly	1,800	3,200	20	60
Finishing	-	600	4	10

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. 316.
(d) Name three overhead absorption rates and state why they are based on budgeted rather than actual figures.

(80 marks)

9. Budgeting

Spencer Ltd. has recently completed its annual sales forecast to December 2006. It expects to sell two products – Silver at €140 and Gold at €170.

All stocks are to be reduced by 20% from their opening levels by the end of 2006 and are valued using the FIFO method.

	Silver	**Gold**
Sales are expected to be	8,000 units	3,700 units

Stocks of finished goods on 1/1/2006 are expected to be:

Silver	500 units at €120 each
Gold	400 units at €140 each

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

	Silver	**Gold**
Material 1	6 kgs	4 kgs
Material 2	5 kgs	7 kgs
Skilled labour	6 hours	7 hours

Stocks of raw materials on 1/1/2006 are expected to be:

Material 1	4000 kgs @ €1.80 per kg
Material 2	3000 kgs @ €3.50 per kg

The expected prices for raw materials during 2006 are:

Material 1	€2 per kg
Material 2	€4 per kg

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

Production overhead costs are expected to be:

Variable	€3 per skilled labour hour
Fixed	€145,480 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 Silver and Gold is €134 and €155 respectively)*.
(e) Note on the factors taken into account by Spencer Ltd. in arriving at the expected sales in 2006 of 11,700 units.

(80 marks)

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