Coimisiún na Scrúduithe Stáit

State Examinations Commission

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Cuntasaíocht	**Gnáthleibhéal**

Marking Scheme	Leaving Certificate Examination, 2007
Accounting	**Ordinary Level**

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LEAVING CERTIFICATE ACCOUNTING

ORDINARY LEVEL

MARKING SCHEME

LEAVING CERTIFICATE ACCOUNTING

ORDINARY LEVEL

Marking Scheme 2007

INTRODUCTION

The solutions and marking schemes for Accounting Ordinary level are attached.

The solutions are printed and the marks allocated to each line/figure are highlighted and shown in brackets like this **[6]** alongside. These marks are then totalled for each section/page and shown in a square like this **40**

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is wrong per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (eg A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where a calculation in section (a) is incorrect, allowance is made for this in subsequent sections.

ACCOUNTING - ORDINARY LEVEL 2007

80

Question 1 –solution

Trading and Profit and Loss Account of Jordan Ltd for year ended 31/12/2006

						€	
Sales						590,000	[3]
Less Returns in						4,600	[3]
						585,400	
Less: Cost of Sales							
Opening Stock				26,400	[3]		
Add Purchases				310,000	[3]		
Add Carriage in				2,800	[3]		
				339,200			
Less: Closing Stock				45,800	[3]		
Cost of Sales						293,400	
Gross Profit						292,000	
Less Expenses							
Administration/Establishment	[1]						
Wages/Salaries		113,300	[4]				
Directors fees		17,000	[4]				
Stationery	(1400 + 3,800 – 600)	4,600	[9]				
Insurance	(19,000 – 4,750)	14,250	[6]				
Depreciation - Buildings		16,200	[4]				
Office equipment		4,900	[4]	170,250			
Selling and Distribution	[1]						
Advertising	(7,300 + 1,800)	9,100	[6]				
Commission paid		3,000	[3]	12,100		182,350	
						109,650	
Add Operating Income							
Provision for bad debts (2,800 – 1,020)						1,780	[6]
Operating Profit						111,430	
Less Debenture Interest						6,000	[6]
Net Profit for the year						105,430	
Les Corporation Tax						12,000	[3]
Profit after taxation						93,430	
Profit and Loss Balance on 1/1/2006						(10,400)	[2]
Profit and Loss Balance on 31/12/2006						83,030	[3]

Question 1 – solution - (continued)

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Balance Sheet of Jordan Ltd as on 31/12/2006

	Cost		**Accumulated Depreciation**		**Net Book Value**	
Intangible Fixed Assets	**€**		**€**		**€**	
Patents					84,000	[2]
Tangible Fixed Assets						
Buildings	540,000	[2]	100,200	[3]	439,800	[2]
Office equipment	55,000	[2]	10,900	[3]	44,100	[2]
	595,000		111,100		567,900	
Current Assets						
Closing Stock			45,800	[2]		
Stock – stationery			600	[2]		
Insurance prepaid			4,750	[2]		
Debtors	20,400	[2]				
Less bad debts provision	1,020	[1]	19,380			
Bank			6,800	[2]		
			77,330			
Creditors: amounts falling due within 1 year						
Debenture interest due	6,000	[2]				
Advertising due	1,800	[2]				
Corporation Tax due	12,000	[2]				
VAT	10,600	[2]				
Creditors	31,800	[2]	62,200		15,130	
					583,030	
Financed by:						
Creditors: amounts falling due after more than 1 year						
8% Debentures					100,000	[1]
Capital & Reserves	**Authorised**		**Issued**			
Ordinary share capital	600,000	[1]	400,000	[1]		
Profit & Loss Account			83,030			
					483,030	
Capital Employed					583,030	

Question 2 - solution.

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Debtors Ledger Control Account

	DR	€				CR	€	
May 1	Balance b/d	86,000	[4]	May 1		Balance	300	[2]
	Credit Sales -					Returns in	1,400	[2]
	(390,000 – 30,000)	360,000	[6]			Discount allowed	1,600	[2]
	Cheques dishonoured	1,800	[2]			Bills receivable	12,900	[2]
May 31	Balance c/d	140	[1]			Bank	310,000	[2]
						Bad debts	2,700	[2]
						Contra	2,300	[2]
				May 31		Balance c/d	116,740	[2]
		447,940					447,940	
Jun 1	Balance b/d	116,740	[1]	Jun 1		Balance b/d	140	

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Creditors Ledger Control Account

	DR	€			CR	€	
May 1	Balance	600	[2]	May 1	Balance	44,000	[4]
	Discount received	2,200	[2]		Credit Purchases -		
	Bills payable	9,500	[2]		(230,000 – 18,000)	212,000	[6]
	Cash	194,000	[2]		Interest charged on		
	Returns out	1,300	[2]		overdue account	60	[4]
	Contra	2,300	[2]	May 31	Balance c/d	290	[1]
May 31	Balance c/d	46,450	[2]				
		256,350				256,350	
Jun 1	Balance b/d	290		Jun 1	Balance b/d	46,450	[1]

Question 3 - solution

Correction of Errors

(a) **35**

Journal Entries		**Dr**	**Cr**
		€	€
(1)	Patricia Smith	800 [3]	
	Pat Smith		800 [3]
	Being correction of sales debited to Patricia Smith in error for Pat Smith. [1]		
(2)	Suspense	9,000 [3]	
	Purchases		9,000 [3]
	Being correction of incorrect posting of purchases book total. [1]		
(3)	Suspense	480 [3]	
	Interest paid		240 [3]
	Interest received		240 [3]
	Being correction of error interest received treated as interest paid.		
(4)	Sales returns	180 [3]	
	Debtors		180 [3]
	Being correction of error sales returns not entered in the books		
(5)	Drawings	300 [3]	
	Purchases		300 [3]
	Being correction of error goods taken by owner not entered in books		

(b) **25**

Statement of Corrected Net Profit

		€
Original Net Profit		15,000 [4]
Add: Purchases	9,000 [4]	
Interest paid	240 [4]	
Interest received	240 [4]	
Purchases	300 [4]	
		9,780
		24,780
Less: Sales Returns		180 [4]
Corrected Net Profit		24,600 [1]

Question 4 – solution

(a) **15**

Accumulated Fund of St Patrick's Football Club on 1/1/2006

	€	
Assets		
Clubhouse/pitches	620,000	[2]
Equipment	28,000	[2]
Bar Stock	2,900	[2]
Membership due	300	[2]
Building Society deposit	8,000	[2]
Bank	5,900	[2]
	665,100	
Less Liabilities		
Expenses due	1,100	[2]
Accumulated fund 1/1/06	664,000	[1]

(b) **9**

Bar Trading Account			€
Bar Sales			28,340[2]
Less Cost of sales			
Opening Stock		2,900[2]	
Add: Purchases for cash	16,200		
Creditor payments	2,300		
Creditors at 31/12/06	300	18,800[3]	
		21,700	
Less: Closing Stock		1,800[2]	19,900
Bar Profit			8,440

(c) **30**

Income/Expenditure Account of St. Patrick's Football Club for year ended 31/12/2006

Income			
Bar Profit			8,440 [2]
Subscriptions		22,400 [2]	
Less: Subs prepaid 31/12/06		(1,500) [2]	
Less Subs due 1/1/06		(300) [2]	20,600
Interest received			860 [2]
Annual sponsorship			1,200 [2]
			31,100
Less Expenses			
General Expenses	(8,600 + 2,600 - 1,100)	10,100 [6]	
Competition costs	(1,900 – 1,600)	300 [5]	
Depreciation - Clubhouse/pitches 2%		12,400 [2]	
- Equipment 10%		3,140 [2]	25,940
Surplus of Income/Expenditure			5,160 [3]

(d) **6**

Sponsorship is where a club receives financial help or equivalent from businesses to run the club during the year. St. Patrick's received financial help of €1,200.

Question 5 – solution - Interpretation of Accounts

(a) **40**

(i)	Purchases	€530,000 + 42,000 - €30,000	=	€542,000	[**10**]

(ii) Percentage mark-up on cost

$\dfrac{\text{Gross Profit x 100}}{\text{Cost of Sales}} = \dfrac{140{,}000 \text{ x } 100}{530{,}000} =$ 26.41% [**10**]

(iii) Period of credit given to debtors

$\dfrac{\text{Debtors x 365}}{\text{Credit Sales}} = \dfrac{38{,}000 \text{ x } 365}{670{,}000} =$ 20.7 days [**10**]

(iv) Acid Test Ratio

$\dfrac{\text{(Current Assets - closing stock)}}{\text{Current Liabilities}} = \dfrac{120{,}000 - 42{,}000}{86{,}000} =.$ 0.91 to 1 [**10**]

(b) **40**

(i) **Debentures (2010/2011).** Debentures are long term loans. They will be repaid in full during the years 2010/2011. They carry a fixed rate of interest at 5% per annum. [**10**]

(ii) **Ordinary Dividend**: The ordinary dividend is the portion of the profits paid to ordinary shareholders. The ordinary shareholders are the owners of the company. This dividend is paid after the preference shareholders have been paid. [**10**]

(iii) **Capital employed**: This is the total amount invested in the business. It is made up Issued Share Capital plus reserves plus long-term liabilities. [**10**]

(iv) **Depreciation** is the loss in value of a fixed asset due to its use or the passage of time. A business will decide on the % amount to write off each year. The method could be Straight line or reducing balance. [**10**]

(c) **Yes/no** **10**

The acid test ratio is 0.91: 1. This is close to the norm of 1 to 1. This means that for every euro they owe they have 91c of a liquid asset available.

(d) Return on capital employed for 2006. **10**

$\dfrac{\text{Operating Profit x 100}}{\text{Capital Employed}} = \dfrac{65{,}000 + 7{,}500 \text{ x } 100}{824{,}000} =$ 8.79%

Yes/no
The Return on capital employed for 2006 is 8.79%. The return has fallen by about 2% since 2005. This is not a good sign. However it is about twice the return of risk free investments of about 4%.

Question 6 – solution - Farm Account

40

(a)

Enterprise Analysis Account – "Livestock/Milk" for the year ended 31/12/2006

			€	€	
Income					
Sales					
Sale of Livestock			235,000[2]		
Sale of Milk			126,300[2]		
Drawing of Milk			1,250[2]	362,550	
Less cost of sales					
Opening Stock			96,000[2]		
Add Purchase of Livestock			44,000[2]		
Less Closing Stock			(74,000)[2]	66,000	
				296,550	
Less Expenditure					
Farm wages (1/2)			28,200[2]		
Feedstuffs	(W1)		17,900[4]		
Fertiliser	(W2)		3,975[4]		
Vet fees/medicines			1,900[2]	51,975	
Gross Profit				244,575	[2]

Enterprise Analysis Account for Grain crops for the year ended 31/12/2006

		€	€	
Income				
Sale of Grain			82,400	[2]
Less cost of sales -Grain seeds	(W3)		7,000	[4]
			75,400	
Less Expenditure				
Fertiliser	(W2)	3,975[4]		
Farm wages	(1/2)	28,200[2]	32,175	
Gross Profit			43,225	[2]

(W1) Feedstuffs

Opening Stock	3,600	
Add Purchases	16,900	
Less Closing Stock	(2,600)	17,900

(W2) Fertiliser

Opening Stock	1,600			
Add Purchases	7,250			
Less Closing Stock	(900)	7,950	Livestock and Milk	3,975
			Grain	3,975

(W3) Cost of sales -Grain seeds

Opening Stock	200	
Add Purchases	6,800	7,000

(b) **25**

General Profit and Loss Account for the year ended 31/12/2006

	€	€
Income		
Contribution/Profit – Cattle and Milk		244,575 [3]
Contribution/Profit – Grain		43,225 [3]
		287,800
Expenditure		
ESB	12,920 [4]	
Loan Interest (W4)	9,000 [4]	
Depreciation		
Buildings 3%	18,000 [4]	
Machinery 20%	24,000 [4]	63,920
Net Profit for the year		**223,880** [3]

(W4) Loan Interest

Bank	4,500
Add due	4,500
	9,000

(c) **35**

Balance Sheet of T. Curtin as on 31/12/2006

Fixed Assets	**Cost** €	**Depreciation** €	**Net** €
Land/Buildings	600,000[2]	98,000[3]	502,000
Machinery	120,000[2]	39,000[3]	81,000
	720,000	137,000	583,000
Current Assets			
Closing Stocks- Livestock		74,000 [3]	
- Fertiliser		900 [3]	
- Feedstuffs		2,600 [3]	
		77,500	
Creditors: amounts due within 1 year			
Interest due	4,500[3]		
Bank	106,370[3]	110,870	
Net Current Assets			(33,370)
			549,630
Financed by:			
Creditors: amounts falling due after 1 year			
10 year loan			90,000[3]
Capital and Reserves			
Capital		245,000 [3]	
Add Net Profit		223,880	
		468,880	
Less Drawings (8,000 + 1,250)		9,250 [4]	459,630
			549,630

Question 7 – solution

(a) **30**

Reconciliation of operating profit to net cash flow from operating activities:

	€	€	
Operating profit		190,000	[3]
Add Depreciation		20,000	[6]
Increase in stock		(5,000)	[6]
Increase in debtors		(12,000)	[6]
Increase in creditors		7,000	[6]
Net cash inflow from operating activities:		200,000	[3]

(b) **65**

Cash Flow Statement of Thornton Ltd for the year ended 31/12/2006

				€	
Operating Activities	[2]				
Net cash inflow from operating activities				200,000	[4]
Returns on investments and servicing of finance	[2]				
Interest paid				(9,000)	[8]
Taxation	[2]				
Corporation Tax paid				(38,000)	[8]
Capital expenditure and financial investment	[2]				
Purchase of land/buildings				(80,000)	[8]
Equity dividends paid	[2]				
Dividends paid during the year				(15,000)	[8]
Net cash inflow before liquid resources and financing				58,000	
Financing					
Issue of shares		10,000	[8]		
Repayment of debentures		(60,000)	[8]	(50,000)	
Increase in cash			[3]	8,000	

(c) **5**

Reconciliation of net cash flow to movement in net debt

Increase in cash during period	8,000	[1]
Cash paid for debentures	60,000	[1]
Change in net debt	68,000	[1]
Net debt at 1/1/2006	(116,000)	[1]
Net debt at 31/12/2006	(48,000)	[1]

Question 8 – solution - Absorption Costing

80

(a) **Service Costs Apportionment**

Dept A	75% x €12,000	=	€9,000 [**10**]
Dept B	25% x €12,000	=	€3,000 [**10**]

(b) **Overhead Absorption Rate for Dept A**

Dept A = $\frac{\text{Total Overheads}}{\text{No. of mach/hrs}}$ = $\frac{16{,}000 + 9{,}000}{800 \text{ hrs}}$ = €31.25 per Machine hour [**15**]

(c) **Overhead Absorption Rate for Dept B**

Dept B = $\frac{\text{Total Overheads}}{\text{No of lab/hours}}$ = $\frac{8{,}000 + 3{,}000}{500 \text{ hrs}}$ = €22 per labour hour[**15**]

(d) **Cost of Job No 506**

		€	
	Direct materials	4,200.00	[**5**]
	Direct labour	1,500.00	[**5**]
	Overhead Dept A (€31.25 x 12 hrs)	375.00	[**6**]
	Overhead Dept B (€22 x 4 hrs)	88.00	[**6**]
(e)	Cost of Job	6,163.00	[**4**]
	Add mark –up 25%	1,540.75	
	Selling price	7,703.75	[**4**]

Question 9– solution - Cash Budgeting

54

(a) **Cash Budget for five months**

Budgeted Cash Receipts	**Jan**		**Feb**		**Mar**		**April**		**May**		**Total**
Cash from debtors	36,000	[2]	78,000	[2]	84,000	[2]	96,000	[2]	80,000	[2]	374,000
Total	36,000		78,000		84,000		96,000		80,000		374,000
Budgeted Cash Payments											
Cash for Purchases	44,600	[2]	54,000	[2]	73,000	[2]	84,000	[2]	87,400	[4]	343,000
Rent	1,500	[2]	1,500	[2]	1,500	[2]	1,500	[2]	1,500	[2]	7,500
Equipment							6,000	[2]			6,000
Wages	5,800	[1]	5,800	[1]	5,800	[1]	5,800	[1]	5,800	[1]	29,000
Total	51,900		61,300		80,300		97,300		94,700		385,500
Net Cash	(15,900)	[1]	16,700	[1]	3,700	[1]	(1,300)	[1]	(14,700)	[1]	(11,500)
Opening Cash	10,200	[2]	(5,700)	[1]	11,000	[1]	14,700	[1]	13,400	[1]	10,200
Closing Cash	(5,700)	[1]	11,000	[1]	14,700	[1]	13,400	[1]	(1,300)		(1,300)

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(b)

Budgeted Balance Sheet as 31/5/2007

Fixed Assets						**€**	
Fixed assets	(560,000 + 6,000)					566,000	[6]
Current Assets							
Debtors				82,000	[4]		
Stock				31,400	[3]		
				113,400			
Creditors: amounts falling due within 1 year							
Creditors		61,000	[4]				
Bank		1,300	[3]	62,300		51,100	
						617,100	
Financed by							
Capital						590,000	[3]
Add Net Profit						27,100	[3]
						617,100	