



Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2011

Marking Scheme

ACCOUNTING

Ordinary Level

LEAVING CERTIFICATE ACCOUNTING - 2011

Ordinary Level Marking Scheme

INTRODUCTION

The solutions and marking scheme for Accounting Higher Level are attached.

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 not as 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 (e.g. 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.

1. Departmental Final Accounts of a Limited Company

[80]

LAMBE Ltd

Trading, Profit and Loss Account for the year ended 31/12/2010 [1]

	Total	Fashion	Sportswear	Total	Fashion	Sportswear
	€	€	€	€	€	€
Sales	900,000 [3]	600,000 [2]	300,000 [2]			
Less Returns In	3,400 [2]	3,400 [1]				
Net Sales	896,600	596,600	300,000			
Less: Cost of Sales						
Stock 1/1/10	99,000 [2]	53,000 [2]	46,000 [2]			
Purchases	448,000 [3]	290,000 [3]	158,000 [3]			
Carriage In	5,000 [2]		5,000 [2]			
	552,000	343,000	209,000			
Stock 31/12/10	102,000 [2]	63,000 [2]	39,000 [2]			
Cost of Sales	450,000	280,000	170,000			
Gross Profit	446,600	316,600	130,000			
Less Expenses						
Administration [1]						
Insurance	32,000 [2]	24,000 [1]	8,000 [1]			
Salaries & G.E.	120,000 [2]	80,000 [1]	40,000 [1]			
Light & Heat	70,000 [2]	52,500 [1]	17,500 [1]			
Directors Fees	30,000 [2]	20,000 [1]	10,000 [1]			
<i>Depreciation</i>						
Buildings	15,000 [3]	11,250 [1]	3,750 [1]			
Furniture	20,000 [3]	15,000 [1]	5,000 [1]			
	287,000	202,750	84,250			
Selling and Distribution [1]						
Advertising	36,000 [2]	24,000 [1]	12,000 [1]			
	36,000	24,000	12,000	323,000	226,750	96,250
Operating Profit	123,600	89,850	33,750			
Less Debenture Interest	6300 [4]	4,725 [1]	1,575 [1]			
Net Profit before Tax	117,300	85,125	32,175			
Profit and Loss Balance 01/01/2010	6,100 [1]					
Profit and Loss Balance 31/12/2010	€123,400 [5]					

Balance Sheet of Lambe Ltd as on 31/12/2010 [1]

	Cost	Accumulated Depreciation	Net
	€	€	€
Fixed Assets			
Buildings	750,000 [2]	125,000 [3]	625,000
Furniture and Fittings	200,000 [2]	60,000 [3]	140,000
	<u>950,000 [1]</u>	<u>185,000 [1]</u>	<u>765,000 [1]</u>
Current Assets			
Stock	102,000 [3]		
Debtors	88,000 [3]		
Advertising Prepaid	<u>2,000 [2]</u>	192,000	
Creditors: Amounts falling due within 1 year			
Creditors	63,000 [3]		
Bank	9,800 [3]		
VAT	10,900 [3]		
PAYE/PRSI	13,600 [3]		
Debenture Interest Due	<u>6,300 [2]</u>	<u>103,600</u>	
			<u>88,400</u>
			<u>€53,400</u>
Financed By:			
Creditors: Amounts falling due after more than 1 year			
8% Debentures			140,000 [2]
Capital and Reserves	Authorised	Issued	
Ordinary Share Capital	<u>700,000 [1]</u>	590,000 [1]	
Profit and Loss Account		<u>123,400</u>	713,400
Capital Employed			<u>€53,400</u>

2. Debtors and Creditors Control Account

[30]

Dr		Debtors Ledger Control Account		Cr			
		€					
1/4/11	Balance b/d	56,300	[2]	1/4/11	Balance b/d	1,800	[2]
	Sales (309,500 - 26,500)	283,000	[6]		Discount Allowed	3,400	[2]
	Interest Charged	1,700	[2]		Returns In	7,900	[2]
	Cheques Rec. dishonoured	1,500	[2]		Cheques Received	228,100	[2]
30/4/11	Balance c/d	1,300	[2]		Bad Debts W/O	3,600	[2]
					Contra	2,900	[2]
					Bills Receivable	19,500	[2]
				30/4/11	Balance c/d	76,600	[2]
		€343,800				€343,800	
1/5/11	Balance b/d	76,600		1/5/11	Balance b/d	1,300	

[30]

Dr		Creditors Ledger Control Account		Cr			
		€					
1/4/11	Balance b/d	700	[3]	1/4/11	Balance b/d	38,500	[3]
	Discount Received	5,800	[2]		Purchases (184,600 - 12,100)	172,500	[6]
	Returns Out	2,400	[2]		Discount disallowed	600	[4]
	Cheques paid	104,600	[2]	30/4/11	Balance c/d	400	[2]
	Contra	2,900	[2]				
	Bills payable	7,400	[2]				
30/4/11	Balance c/d	88,200	[2]				
		€12,000				€12,000	
1/5/11	Balance c/d	400		1/5/11	Balance c/d	88,200	

3. Depreciation and Revaluation of Fixed Assets

Dr		Buildings Account		Cr		[15]
		€				€
1/1/09 [1]	Balance b/d	680,000 [2]	1/7/09	Disposal	240,000 [2]	
	Bank	230,000 [4]	31/12/09	Balance c/d	670,000	
		<u>€10,000</u>			<u>€10,000</u>	
1/1/10	Balance b/d	670,000	31/12/10	Balance c/d	900,000 [1]	
	Revaluation	230,000 [4]				
		<u>€00,000</u>			<u>€00,000</u>	
1/1/11	Balance b/d	900,000 [1]				

Dr		Provision for Depreciation Account		Cr		[20]
		€				€
1/7/09	Disposal	70,000 [3]	1/1/09	Balance b/d	92,000 [4]	
31/12/09	Balance c/d	69,000	31/12/09	P & L/Depr.	47,000 [4]	
		<u>€139,000</u>			<u>€139,000</u>	
1/1/10	Revaluation	69,000 [3]	1/1/10	Balance b/d	69,000	
31/12/10	Balance c/d	27,000 [1]	31/12/10 [1]	P & L/Depr.	27,000 [3]	
		<u>€6,000</u>			<u>€6,000</u>	
			1/1/11 [1]	Balance b/d	27,000 [1]	

Dr		Disposal Buildings Account		Cr		[15]
		€				€
1/7/09	Buildings	240,000 [4]	1/7/09	Bank	250,000 [4]	
1/7/09	Profit/Loss	80,000 [3]	1/7/09	Prov. for Depreciation	70,000 [4]	
		<u>€320,000</u>			<u>€320,000</u>	

Dr		Revaluation Reserve		Cr		[10]
						€
			1/1/10	Buildings	230,000 [5]	
				Provision for Depreciation	69,000 [5]	
					<u>€299,000</u>	

4. Farm Accounts

(a)

Carter Family Capital 1/1/2010

[20]

Assets	€		€
Land	600,000	[2]	
Farm Buildings	280,000	[2]	
Machinery	75,000	[2]	
Stock of Cattle	68,000	[2]	
Stock of Sheep	24,000	[2]	
Bank	9,800	[3]	1,056,800
	<hr/>		
Liabilities			
E.S.B. due	300	[3]	300
Capital			<hr/> <u>€1,056,500</u> [4]

(b)

Enterprise Analysis Account Cattle/Milk

[20]

Income	€		€
Sale of Milk	32,000	[1]	
Sale of Cattle	83,000	[1]	
Single Farm Payment	12,300	[2]	
Drawings	1,750	[1]	129,050
	<hr/>		
Less Cost of Sales			
Stock 1/1	68,000	[1]	
Purchases	9,700	[1]	
	<hr/>		
	77,700		
Stock 31/12	29,000	[1]	48,700
			<hr/>
			80,350
Expenditure			
Fertilizer	4,450	[2]	
E.S.B.	2,150	[4]	
Repairs	900	[2]	
Wages	13,100	[2]	20,600
Profit			<hr/> <u>€9,750</u> [2]

(b) continued

[14]

Enterprise Analysis Account - Sheep

	€		€
Income			
Sale of Lambs	10,900	[1]	
Sale of Wool	1,300	[1]	
Single Farm Payment	4,100	[1]	
Drawings	500	[1]	16,800
	<hr/>		
Less Cost of Sales			
Stock 1/1	24,000	[1]	
Purchases	6,200	[1]	
	<hr/>		
	30,200		
Stock 31/12	25,000	[1]	5,200
	<hr/>		<hr/>
			11,600
Expenditure			
Fertilizer	4,450	[1]	
E.S.B.	2,150	[2]	
Repairs	900	[1]	
Wages	13,100	[1]	20,600
	<hr/>		<hr/>
Loss			(€9,000) [2]

[6]

(c)

- (i) To see which Enterprise is making a profit and to see where costs could be cut if an Enterprise is making a loss.
- (ii) Accounts have to be lodged with the Revenue Commissioners in order to determine how much tax has to be paid.
- (iii) If the farmer wants to get a bank overdraft or a loan, he needs a full set of accounts.

5. Interpretation of Accounts

[40]

(a) (i) Net Profit

$$373,000 - 159,000 = \text{€}114,000 \quad [8]$$

(ii) Purchases

Cost of Sales	547,000	
Add Stock 31/12	64,000	
	<hr/>	
	611,000	
Less Stock 1/1	(73,000)	
	<hr/>	
	€538,000	[12]

(iii) Period of Credit given to Debtors

$$\frac{\text{Debtors} \times 365}{\text{Credit Sales}} = \frac{58,000 \times 365}{920,000} = 23.01 \text{ days} \quad [10]$$

(iv) Return on Capital Employed

$$\frac{\text{Net Profit} + \text{Interest}}{\text{Capital Employed}} \times \frac{100}{1} = \frac{214,000 + 8,400}{1,023,000} \times \frac{100}{1} = 21.74\% \quad [10]$$

Note: for parts (iii) and (iv) if there are no labels for answer deduct 1m in each case.

[40]

(b) (i) **6% Debentures (2017/2018)** - Debentures are long term loans. They will be repaid in full during the years 2017/2018. They carry a fixed annual rate of interest of 6%. [10]

(ii) **Intangible Assets** - These are assets that have real value but we cannot see. Examples are patents and goodwill. [10]

(iii) **Ordinary Dividend** - The part of the net profit paid out to the Ordinary Shareholders. They are paid after the preference shareholders. The rate is decided by the Directors and is a % of the Issued Share Capital. [10]

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

(c) (i) **Acid Test Ratio** – $(210,000 - 64,000) : 83,000$

1.76: 1

[10]

(ii) This ratio tells us that for every €1 they owe they have liquid assets of €1.76. This is better than the recommended ratio of 1 : 1. [10]

[10]

(d) 2009 = 15% 2010 = 21.74%

The return on Capital Employed has increased by approx 7%. This is an excellent return as they would only received about 3% from a bank.

6. Club Accounts

[20]

(a) Accumulated Fund 1/1/10

	€		€
Assets			
Clubhouse/Pitches	375,000	[2]	
Equipment	19,000	[2]	
Bar Stock	6,300	[2]	
Investments	30,000	[2]	
Subs Due	800	[3]	
Cash	25,400	[2]	456,500
Liabilities			
Creditors			900 [3]
Accumulated Fund			<u>€455,600</u> [4]

(b)

Bar Trading Account 31/12/10

[8]

Sales			38,500	[1]
Less Cost of Sales				
Opening Stock 1/1/2010		6,300		[1]
Purchases	24,200	[1]		
Add Creditors 31/12/2010	<u>1,300</u>	[1]		
	25,500			
Less Creditors 1/1/2010	<u>900</u>	[1]	24,600	
			30,900	
Less Closing Stock 31/12/2010		<u>4,800</u>		[1]
Cost of Sales			<u>26,100</u>	
Bar Profit			<u>€12,400</u>	[2]

(c) Income and Expenditure Account for the year ended 31/12/2010

[34]

Income

Bar Profit			12,400	[2]
Subscriptions	19,000	[3]		
Less subs due 1/1/2010	<u>800</u>	[2]		
	18,200			
Less subs prepaid 31/12/2010	<u>250</u>	[2]	17,950	
Investment Interest			1,500	[3]
Annual Sponsorship			22,000	[3]
Lotto Receipts	43,700	[2]		
Lotto Prizes	<u>13,000</u>	[1]	30,700	[1]
				84550

Expenditure

General Expenses	14,300	[2]		
Expenses due 31/12/2010	<u>900</u>	[2]	15,200	
Depreciation of Clubhouse			7,500	[4]
Depreciation on Equipment [2]			<u>4,300</u>	[2]
				20,700
Surplus of Income/Expenditure [1]				<u>€57,550</u> [2]

(d)

Balance Sheet of Round Towers Football Club as on 31/12/2010.

[30]

	Cost	Accumulated Depreciation	Net
	€	€	€
Fixed Assets			
Clubhouse/Pitches	375,000 [2]	7,500 [2]	367,500 [1]
Equipment	21,500 [2]	4,300 [2]	17,200 [1]
	<u>396,500</u>	<u>11,800</u>	384,700
Investments			<u>30000</u> [3]
			414,700
Current Assets			
Stock	4,800 [3]		
Cash	<u>96,100</u> [3]	100,900	
Creditors: Amounts falling due within 1 year			
Creditors	1,300 [3]		
Subs prepaid	250 [3]		
Expenses due	<u>900</u> [3]	<u>2,450</u>	
Working Capital			<u>98,450</u>
Total Net Assets			<u>€13,150</u>
Financed By:			
Accumulated Fund			455,600 [1]
Surplus of Income/Expenditure			<u>57,550</u> [1]
Capital Employed			<u>€13,150</u>

(e)

[8]

- The balance in the Receipts and Payments Account merely shows the amount of cash left over on the last day of the period covered by the account.
- The balance in the Income and Expenditure Account represents the surplus of income or excess of expenditure for the period covered by the account.
- The balance of the Income and Expenditure Account has been arrived at after accounting for such items as prepayments, accruals and depreciation.

7. Cash Flow Statement

[30]

(a)

Reconciliation of Operating Profit to Net Cash Flow

Operating Profit	104,000	[3]
Add Depreciation	8,000	[6]
Less Stock Increase	(6,000)	[6]
Add Debtors Decrease	2,000	[6]
Less Creditors Decrease	(7,000)	[6]
Net Cash inflow from Operating Activities	<u>101,000</u>	[3]

(b)

Cash Flow Statement of Connolly Ltd for the year ended 31/12/2010

[65]

Operating Activities [2]

Net cash inflow from Operating Activities 101,000 [4]

Return on Investments and Servicing of Finance [2]

Interest Paid (9,000) [8]

Taxation [2]

Tax Paid (23,000) [6]

Capital Expenditure and Financial Investment [2]

Purchase of land/building (70,000) [6]

Equity/Ordinary Dividend paid [2]

Dividends paid (40,000) [8]

Net cash outflow before liquid resources and financing (41,000)

Financing [2]

Issue of Ordinary Shares 60,000 [8]

Repayment of Debentures (20,000) [8]

Decrease in Cash (1,000) [5]

Note: for misplaced items there is an penalty of 2 marks up to a maximum of 4 marks

(c)

Reconciliation of Net Cash flow to movement in Net Debt

[5]

Decrease in cash in the period	(1,000)	[1]
Cash used to repay debentures	20,000	[1]
Change in Net Debt	<u>19,000</u>	[1]
Net Debt 31/12/09	(38,000)	[1]
Net Debt 31/12/10	<u>(19,000)</u>	[1]

8. Absorption Costing

(a) (i) Overhead absorption rate per Direct Labour Hour

[15]

$$\text{Direct Labour Hour rate: } \frac{\text{Budget factory overheads}}{\text{Budgeted Direct labour hours}} = \frac{108000}{15000\text{hrs}} = \text{€}7.20 \text{ per labour hour}$$

(ii) Overhead absorption rate per Machine Hour

[15]

$$\text{Machine Hour rate: } \frac{\text{Budget factory overheads}}{\text{Budgeted Machinery hours}} = \frac{108000}{9000\text{hrs}} = \text{€}12 \text{ per machine hour}$$

(b) **Total Cost of Job No 482**

[16]

	Labour Hour Rate
Direct Materials	19,000
Direct Labour (240 × 8.50)	2,040
Factory Overheads (240 × €7.20)	1,728
	<u>€22,768</u>

(c) **Total Cost of Job No 482**

[16]

	Machine Hour Rate
Direct Materials	19,000
Direct Labour (240 × 8.50)	2,040
Factory overheads (175 × €12)	2,100
	<u>€23,140</u>

(d) **Selling Price of Job No 482**

[10]

	Labour Rate
Cost	22,768
Mark – up 25%	5,692
	<u>€28,460</u>

(e)

[8]

A business needs to be able to calculate the cost price of a product so that they can determine a suitable selling price in order to make a profit. They also can see if it is worthwhile producing.

9. Cash Budgeting

Cash Budget for five months

[50]

(a)

Receipts	Jan	Feb	Mar	Apr	May	Total
Cash from Debtors	27,300 [2]	83,700 [2]	94,300 [2]	67,300 [2]	71,000 [2]	343,600
Total Receipts	€27,300	€83,700	€94,300	€67,300	€71,000	€343,600
Payments						
Cash for Purchases	22,800 [2]	44,200 [2]	88,100 [4]	33,800 [2]	45,400 [2]	234,300
Rent	2,000 [1]	2,000 [1]	2,000 [1]	2,000 [1]	2,000 [1]	10,000
Equipment		17,000 [1]				17,000
Wages	19,400 [1]	19,400 [1]	19,400 [1]	19,400 [1]	19,400 [1]	97,000
Total Payments	44,200	82,600	109,500	55,200	66,800	359,300
Net Cash	(16,900) [1]	1,100 [1]	(15,200) [1]	12,100 [1]	4,200 [1]	(14,700)
Opening Cash	29,500 [1]	12,600 [1]	13,700 [1]	(1,500) [1]	10,600 [1]	29,500
Closing Cash	12,600 [1]	13,700 [1]	(1,500) [1]	10,600 [1]	14,800 [3]	14,800

(b)

Balance Sheet as at 31/5/2010

[22]

Fixed Assets	€	€	€
Fixed Assets (220,000 + 17,000)			237,000 [6]
Current Assets			
Stock	56,400 [3]		
Debtors	92,200 [3]		
Cash	14,800 [3]	163,400	
Creditors: Amounts falling due within 1 year			
Creditors	77,900 [3]	77,900	
			85,500
			€22,500
Financed By:			
Capital			300,000 [2]
Net Profit			22,500 [2]
Capital Employed			€22,500

(c)

[8]

It shows L. Tarpey's monthly surplus/deficit
 It can predict overdraft requirements for the period.
 It helps with planning/control of cash

