Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2016

Marking Scheme

Accounting

Ordinary Level

Note to teachers and students on the use of published marking schemes

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Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

State Examinations Commission
Coimisiún na Scrúduithe Stáit

LEAVING CERTIFICATE EXAMINATION 2016

A C C O U N T I N G - O R D I N A R Y L E V E L
(400 marks)

Accounting Solutions and Marking Scheme

1. **Final Accounts of a Limited Company** **80**

Trading Profit and Loss Account of Bowe Ltd for the year ended 31/12/2015 [1]

Sales				560,900 [4]
Less sales returns				4,800 [4]
				556,100
Less cost of sales				
Opening stock			45,600 [4]	
Purchases			225,000 [4]	
			270,600	
Closing stock			45,300 [4]	
Cost of sales				225,300
Gross profit				330,800 [4]
Less Expenses				
Administration [1]				
Stationery		6,800 [6]		
Wages and salaries		127,100 [4]		
Light, heat and insurance		24,000 [4]		
Directors' fees		35,300 [4]		
Depreciation				
Buildings	14,400 [4]			
Office equipment	5,300 [4]	19,700	212,900	
Selling and Distribution [1]				
Advertising		13,500 [6]	13,500	226,400
				104,400
Add operating income				
Rent received				14,000 [3]
Decrease in bad debt provision				1,700 [4]
Operating profit				120,100
Less debenture interest				4,800 [6]
Net profit for the year				115,300
Less taxation				15,000 [3]
				100,300
Add profit and loss balance 01/01/2015				22,100 [3]
Profit and loss balance at 31/12/2015				122,400 [2]

Balance Sheet Bowe Ltd as at 31/12/2015 [1]

Intangible Assets						
Patents					160,000	[2]
Fixed Assets	**Cost**		**Depreciation**		**N.B.V.**	
Buildings	720,000	[2]	100,400	[2]	619,600	[2]
Office equipment	75,000	[2]	27,300	[2]	47,700	[2]
	795,000		127,700		667,300	
					827,300	
Current Assets						
Closing stock	45,300	[2]				
Stock of stationery	700	[2]	46,000			
Debtors	62,000	[2]				
Less bad debt provision	3,100	[3]	58,900			
Advertising prepaid			4,500	[1]		
Rent receivable due			2,000	[1]		
			111,400			
Creditors: amounts falling due within 1 year						
Creditors	48,000	[2]				
VAT	7,200	[2]				
Bank	12,500	[2]				
Debenture interest due	3,600	[2]				
Corporation tax	15,000	[2]	86,300			
					25,100	
					852,400	
Financed by						
Creditors: amounts falling due after 1 year						
8% Debentures					80,000	[2]
Capital and Reserves	**Authorised**		**Issued**			
Ordinary share capital	1,000,000	[1]	650,000	[1]		
Profit and loss 31/12/2015			122,400		772,400	
Capital Employed					852,400	

2. Debtors and Creditors Control Accounts

[30]

Dr — Debtors Ledger Control Account — Cr

		€				€	
01/01/2016	Balance b/d	75,800	[3]	01/01/2016	Balance b/d	410	[2]
	Sales	93,400	[6]		Discount allowed	560	[2]
	Interest charged	100	[2]		Sales returns	310	[2]
	Dishonoured Ch.	1,800	[2]		Bills receivable	5,840	[1]
31/01/2016	Balance c/d	450	[2]		Bank	80,300	[2]
					Bad debts w/o	750	[2]
					Contra	320	[2]
				31/01/2016	Balance c/d	83060	[2]
		171,550				171,550	
01/02/2016	Balance b/d	83,060		01/02/2016	Balance b/d	450	

[30]

Dr — Creditors Ledger Control Account — Cr

		€				€	
01/01/2016	Balance b/d	240	[2]	01/01/2016	Balance b/d	43,300	[3]
	Purchases returns	350	[3]		Purchases	80,700	[6]
	Discount received	1,320	[2]		Discount disallowed	330	[3]
	Bills payable	4,450	[2]	31/01/2016	Balance c/d	630	[2]
	Bank	60,400	[2]				
	Contra	320	[3]				
31/01/2016	Balance c/d	57,880	[2]				
		124,960				124,960	
01/02/2016	Balance b/d	630		01/02/2016	Balance b/d	57,880	

3. Company Profit and Loss **[35]**

(a)

Profit and Loss Account for year ended 31/12/2015

Net profit for year			170,000	[2]
Less interest			(18,000)	[6]
Less tax			(54,000)	[6]
			98,000	
Less Appropriation				
Increase in general reserve	23,000	[5]		
Ordinary dividend	36,000	[5]		
Preference dividend	18,000	[5]	77,000	
Retained profit for year			21,000	
Retained profit 01/01/2015			312,000	[5]
Retained profits carried forward			333,000	[1]

(b) **[25]**

Balance Sheet as at 31/12/2015

Fixed Assets and Current Assets			1,265,000	
Creditors: amounts falling due within 1 year				
Interest due	18,000	[3]		
Tax due	54,000	[3]	72,000	
			1,193,000	
Financed by:				
Capital and Reserves	**Authorised**		**Issued**	
Preference shares	500,000	[3]	300,000	[2]
Ordinary shares	800,000	[3]	450,000	[2]
	1,300,000		750,000	[1]
Profit and loss balance 31/12/2015			333,000	[4]
General reserve			110,000	[4]
Shareholders' funds			1,193,000	

4. Tabular Statement **[60]**

Assets		**Jan. 3**	**Jan. 7**	**Jan. 12**	**Jan. 16**	**Jan. 19**	**Jan. 21**	**Jan. 23**	**Jan. 26**	**Totals**
Buildings	450,000 [2]								+170,000 [2]	620,000
Machinery	82,000 [2]									82,000
Stock	32,000 [2]		14,200 [2]			(9,200) [2]				37,000
Debtors	28,000 [2]	(3,900) [2]				+8,200 [2]	(600) [2]			31,700
Bank	30,500 [1]	+3,700 [2]		(3,500) [2]	(3,800) [2]		+180 [3]	(3,300) [3]	(15,000) [2]	8,780 [1]
Total	**622,500**	**(200)**	**+14,200**	**(3,500)**	**(3,800)**	**(1,000)**	**(420)**	**(3,300)**	**155,000**	**779,480**
Liabilities										
Capital	590,000 [2]									590,000
Profit/loss	5,000 [1]	(200) [2]			+300 [1]	(1,000) [1]	(420) [1]			3,680
Drawings								(3300) [2]		(3,300)
Creditors	24,000 [3]		14,200 [2]		(4,100) [1]					34,100 [1]
Rent	3,500 [3]			(3,500) [2]						--------
W. Finance Ltd									+155,000 [2]	155,000
Total	**622,500**	**(200)**	**+14,200**	**(3,500)**	**(3,800)**	**(1,000)**	**(420)**	**(3,300)**	**155,000**	**779,480**

5. Interpretation of Accounts **[40]**

(a) (i) **Purchases** [10]

680,000 – 300,000	380,000
Add closing stock	58,000
	438,000
Less opening stock	(42,000)
	396,000

(ii) **Percentage Mark up on cost** [10]

$$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$$

$$\frac{300{,}000}{380{,}000} \times \frac{100}{1} = 78.95\%$$

(iii) **Net Profit Margin** [10]

$$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$$

$$\frac{80{,}000}{680{,}000} \times \frac{100}{1} = 11.76\%$$

(iv) **Period of credit given to debtors** [10]

$$\frac{\text{Debtors}}{\text{Credit sales}} \times \frac{365}{1}$$

$$\frac{20{,}000}{680{,}000} \times \frac{365}{1} = 10.73 \text{ days}$$

[40]

(b) (i) **Depreciation**:
This is the loss in value of a fixed asset during the year due to wear and tear or the passage of time. A business will decide a suitable percentage for the yearly charge. Depreciation in the above balance sheet is €50,000. [10]

(ii) **Tangible Assets**: These are assets that have real value and can be seen. McBreen has fixed assets worth €450,000. [10]

(iii) **Shareholders' Funds**: The amount of money that belongs to the shareholders in the business made up of:

Issued share capital	342,000
Retained profit	80,000
	422,000

[10]

(iv) **Authorised Share Capital**: The amount of shares that McBreen Ltd can issue e.g. €600,000 €1 ordinary shares. [10]

(c) **Acid Test Ratio**: **[10]**

(210,000 – 58,000) : 88,000 **= 1.73 : 1**

This ratio tells us that for every €1 they owe they have liquid assets of €1.73. This is better than the recommended ratio of 1 : 1.

(d) **Return on Capital Employed**: **[10]**

$$\frac{\text{Net profit + interest}}{\text{Capital employed}} \times \frac{100}{1} = \frac{80{,}000 + 9{,}000}{572{,}000} \times \frac{100}{1} = 15.56\%$$

Return on capital employed has decreased from 18% in 2014 to 15.56% in 2015. This is a decrease of 2.44%. This is a good return, the business is profitable, and you would only get a return of about 2/3% from a bank or risk free investment.

6. Cash Flow Statement

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

[30]

	€	
Operating profit	140,000	[3]
Add depreciation	12,000	[6]
Increase in stock	(4,000)	[6]
Decrease in debtors	8,000	[6]
Increase in creditors	5,000	[6]
Net cash inflow from operating activities	161,000	[3]

(b) Cash Flow Statement of Connolly Ltd for the year ended 31/12/2015

[65]

			€	
Operating Activities [2]				
Net cash inflow from operating activities			161,000	[4]
Return on Investment and Servicing of Finance [2]				
Interest paid			(12,000)	[8]
Taxation [2]				
Tax paid			(38,000)	[6]
Capital Expenditure and Financial Investment [2]				
Purchase of land/buildings			(150,000)	[6]
Equity Dividend paid [2]				
Dividends paid			(42,000)	[8]
Net cash inflow before liquid resources and financing			(81,000)	
Financing				
Issue of ordinary share capital	40,000	[6]		
Share premium	10,000	[6]		
	50,000			
Debentures	30,000	[6]	80,000	
Decrease in cash			**(1,000)**	[5]

(c) Reconciliation of Net Cash Flow to movement in Net Debt

[5]

Decrease in cash in the period	(1,000)	[1]
Debentures	(30,000)	[1]
Change in net debt	(31,000)	[1]
Net debt 01/01/2015	(143,000)	[1]
Net debt 31/12/2015	(174,000)	[1]

7. Farm Accounts

(a) (i) **Enterprise Analysis Account – Cows** **[40]**

Income		€		€	
	Single farm payment			18,700	[2]
	Sale of milk			237,900	[2]
	Sale of cows			23,000	[2]
	Drawings of milk			1,900	[2]
				281,500	
	Opening stock	169,000	[1]		
	Purchases	154,000	[2]		
		323,000			
	Closing stock	289,000	[1]	34,000	
				247,500	
Less Expenditure					
	Feedstuff	30,700	[3]		
	Fertiliser	11,340	[4]		
	Wages	45,990	[2]		
	Repairs	4,550	[2]		
	Vets	4,900	[2]	97,480	
				150,020	[2]

(ii) **Enterprise Analysis Account – Grain**

Income		€		€	
	Single farm payment			18,700	[2]
	Sale of grain			56,300	[2]
				75,000	
	Costs			11,400	[2]
				63,600	
Less Expenditure					
	Fertiliser	4,860	[1]		
	Wages	19,710	[2]		
	Repairs	1,950	[2]	26,520	
				37,080	[2]

(b)

[25]

General Profit and Loss Account for the year ending 31/12/2015

Income		€		€	
	Contribution from milk	150,020	[3]		
	Contribution from grain	37,080	[3]	187,100	
Less Liabilities					
	ESB	9,700	[4]		
	Loan interest	22,000	[4]		
	Dep. of buildings	9,500	[4]		
	Dep. of machinery	45,000	[4]	86,200	
Net Profit				100,900	[3]

(c)

[35]

Balance Sheet as at 31/12/2015

Fixed Assets		**Cost**		**Dep.**		**N.B.V.**	
	Land	950,000				950,000	[3]
	Farm buildings	190,000	[2]	47,500	[2]	142,500	
	Machinery	225,000	[2]	152,000	[2]	73,000	
		1,365,000		199,500		1,165,500	
Current Assets							
	Closing stock – cows	289,000	[3]				
	Closing stock – fertiliser	8,000	[3]				
	Closing stock - feedstuffs	10,400	[3]	307,400			
Current Liabilities							
	Bank	12,900	[3]				
	Interest due	8,000	[3]	20,900			
Working capital						286,500	
Net worth						1,452,000	
Financed by							
	Loan					220,000	[2]
	Capital			1,160,000	[3]		
	Farm profit			100,900			
				1,260,900			
	Drawings			28,900	[4]	1,232,000	
						1,452,000	

8. Marginal Costing [80]

(a) Selling Price per unit $= \dfrac{770{,}000}{55{,}000 \text{ units}} =$ €14 per unit [12]

(b) Variable cost per unit $= \dfrac{467{,}500}{55{,}000 \text{ units}} =$ €8.50 per unit [12]

(c) Contribution per unit = SP - VC = C

€14 - €8.50 = €5.50 per unit [10]

(d) Break-even point $= \dfrac{\text{fixed costs}}{\text{C.P.U.}} = \dfrac{137{,}500}{5.50} =$ 25,000 units [10]

Sales value = 25,000 × €14 = €350,000

(e) Margin of Safety = Budgeted sales – B.E.P.

35,000 – 25,000 = 10,000 units

Sales value = 10,000 units × €14 = €140,000 [15]

(f) To achieve a profit of €400,000 [17]

$$\frac{FC + TP}{5.50} = \frac{137{,}500 + 400{,}000}{5.50} = \frac{537{,}500}{5.50} = 97{,}728 \text{ units}$$

Sales value = 97,728 units × €14 = €1,368,192

Alternative

Let N	=	number of units		
SP – VC – FC	=	profit		
14N – 8.5N – 137,500	=	400,000		
5.5N	=	537,500		
N	=	$\dfrac{537{,}500}{5.50}$	=	97,728 units
Sales value	=	97,728 units × €14	=	€1,368,192

(g) Variable cost is a cost that changes with the amounts of units made.
e.g. packaging, raw materials, labour. [4]

9. Cash Budgeting **[80]**

(a) Cash Budget for five months January - May **[74]**

Receipts	**March**	**April**	**May**	**June**	**July**	**Total**
Debtors	62,000 [2]	74,000 [2]	54,300 [2]	91,100 [2]	78,200 [2]	359,600 [3]
Total Receipts	62,000	74,000	54,300	91,100	78,200	359,600
Payments						
Cash for purchases	55,000 [1]	38,100 [1]	72,300 [2]	23,200 [2]	24,300 [1]	212,900 [1]
Expenses	5,000 [2]	12,000 [2]	10,000 [2]	13,000 [2]	16,000 [2]	56,000 [2]
Equipment				18,000 [2]		18,000 [2]
Rent	1,700 [1]	1,700 [1]	1,700 [1]	1,900 [1]	1,900 [1]	8,900 [2]
Total Payments	61,700	51,800	84,000	56,100	42,200	295,800
Net Cash	300 [2]	22,200 [2]	(29,700)[2]	35,000 [2]	36,000 [2]	63,800 [2]
Opening Cash	35,000 [2]	35,300 [1]	57,500 [1]	27,800 [1]	62,800 [1]	35,000 [3]
Closing Cash	**35,300** [1]	**57,500** [1]	**27,800** [1]	**62,800** [1]	**98,800** [2]	**98,800** [3]

(b) A cash budget will show Sean all his inflows/outflows of cash during the period and his cash surplus/deficit at the end of each month.

It will indicate to him when a bank overdraft may be required. [6]

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