Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2016

Marking Scheme

Accounting

Higher Level

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

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

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.

Accounting – Higher Level 2016

Question 1

(a) **75**

Manufacturing Account of Ryan Ltd for the year ended 31/12/2015 [1]

		€	€
Opening stock of raw materials			46,500 [1]
Purchases of raw materials	W 1		496,200 [4]
			542,700
Less Closing stock of raw materials			(36,100) [1]
Cost of Raw Materials Consumed			506,600
Direct Costs:			
Factory wages	W 2	213,200 [5]	
Hire of special equipment		35,700 [2]	
Royalty payments		30,500 [2]	279,400
Prime Cost			786,000
Factory Overheads:			
General factory overheads	W 3	95,200 [6]	
Depreciation - plant and machinery	W 4	31,100 [3]	
Loss on sale of machine	W 5	4,950 [4]	131,250
Factory Cost			917,250
Add Work in progress 01/01/2015			33,200 [3]
Less Work in progress 31/12/2015			(34,200) [3]
			916,250
Less Sale of scrap materials	W 6		(2,500) [4]
Cost of manufacture			913,750

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

			€	€
Sales	W 7			1,337,000 [5]
Less Cost of Sales				
Opening stock of finished goods			48,100 [3]	
Cost of manufacture			913,750 [2]	
			961,850	
Less Stock of finished goods 31/12/2015	W 8		(90,100) [4]	(871,750)
Gross Profit				465,250
Less Expenses				
Administration				
Administration expenses			49,200 [2]	
Selling and Distribution				
Provision for bad debts	W 9	1,512 [3]		
Selling expenses		36,300 [2]	37,812	(87,012)
				378,238
Add Operating Income				
Discount	W 10		4,800 [3]	
Rent	W 11		10,200 [3]	15,000
Operating profit				393,238
Investment income	W 12			8,400 [3]
				401,638
Less Debenture interest	W 13			(28,400) [2]
Net Profit				373,238
Less Dividends paid				(22,500) [1]
Retained profit				350,738
Add Profit and loss balance 01/01/2015				68,900 [2]
Profit and loss balance 31/12/2015				419,638 [1]

(b) **45**

Balance Sheet as at 31/12/2015

		Cost		Acc. Dep.		Net	
Tangible Fixed Assets		€		€		€	
Factory buildings	**W 14**	970,300	[2]	20,000	[1]	950,300	
Plant and machinery	**W 15**	302,000	[2]	96,650	[3]	205,350	
		1,272,300		116,650		1,155,650	
Financial Assets							
Investments						315,000	[2]
						1,470,650	
Current Assets							
Stock Raw materials		36,100	[3]				
Work in progress		34,200	[2]				
Finished goods		90,100	[2]	160,400			
Debtors	**W 16**	37,800	[5]				
Less Provision		(1,512)	[1]	36,288			
Investment income due				8,400	[2]		
				205,088			
Less Creditors: amounts falling due within one year							
Creditors	**W 17**	59,400	[4]				
Bank	**W 18**	38,300	[4]				
Rent prepaid		3,400	[1]				
Wages due		5,500	[1]				
PAYE, PRSI & USC		46,100	[2]				
Debenture interest due		28,400	[2]	(181,100)		23,988	
						1,494,638	
Financed by							
Creditors: amounts falling due after more than one year							
8% Debentures						375,000	[2]
Capital and Reserves		**Authorised**		**Issued**			
Ordinary shares @ €1 each		600,000	[1]	500,000	[1]		
5% Preference shares @ €1 each		250,000	[1]	200,000	[1]		
		850,000		700,000			
Profit and loss balance				419,638		1,119,638	
Capital Employed						1,494,638	

Workings

1.	Purchases – raw materials	524,200 – 28,000	496,200
2.	Factory wages	220,000 + 5,500 - 12,300	213,200
3.	General factory overheads	86,400 + 10,000 - 1,200	95,200
4.	Depreciation - plant and machinery	16,000 + 15,100 30,200 + 900	31,100
5.	Loss on sale of machine	18,000 - 9,450 - 3,600	4,950
6.	Sale of scrap materials	6,100 - 3,600	2,500
7.	Sales - finished goods	1,352,000 – 15,000	1,337,000
8.	Closing Stock - finished goods	77,600 + 12,500	90,100
9.	Provision for bad debts	[37,800 × 4%]	1,512
10.	Discount	6,000 - 1,200	4,800
11.	Rent	8,500 + 5,100 – 3,400 prepaid	10,200
12.	Investment income	4% [315,000] × 8/12	8,400
13.	Debenture interest	25,200 + 3,200 20,000 + 8,400	28,400
14.	Factory buildings	930,000 + [28,000 + 12,300]	970,300
15.	Accumulated depreciation - plant and machinery	75,000 - 9,450 + 31,100	96,650
16.	Debtors	52,000 + 800 – 15,000	37,800
17.	Creditors	49,400 + 10,000	59,400
18.	Bank	42,600 + 800 – 5,100 36,300 + 2,000	38,300 38,300

Penalties: 1 mark for the omission of expense heading 'selling and distribution' in profit and loss a/c
1 mark for the omission of 'total cost' figure for fixed assets.

Question 2

(a)

22

Adjusted Debtors Control Account

		€					€	
Balance b/d		27,000	[1]	Balance b/d			650	[1]
Interest	(ii)	6	[5]	Discount allowed		(i)	330	[5]
Sales returns	(vi)	15	[5]	Contra		(iv)	280	[4]
Balance c/d		650	[1]	Balance c/d			26,411	
		27,671					27,671	
Balance b/d		26,411		Balance b/d			650	

(b)

30

Schedule of Debtors Accounts Balances		€		€	
Balance as per list of debtors				25,396	[3]
Add					
Sales – cash and credit	(iii)			2,200	[4]
				27,596	
Deduct					
Discount allowed	(i)	120	[5]		
Interest	(ii)	30	[5]		
Contra	(iv)	550	[4]		
Bills receivable	(v)	1,120	[4]		
Sales returns	(vi)	15	[4]	(1,835)	
Net balance as per adjusted control account				25,761	[1]

(c)

8

(i) **Why debtors control accounts should be prepared**.

1. They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.
2. They locate errors quickly and narrow searching for errors to confined areas.
3. They are useful when a firm needs to find credit sales from incomplete records.
4. They allow amounts owed by debtors to be ascertained quickly by simply balancing the control accounts.

(ii) **Limitations of control accounts**

1. Control accounts do not identify which ledger account may contain an error.
2. Some types of errors are not revealed by the control account such as errors of commission, errors of omission, compensating errors, and errors of original entry.

Question 3

(a)

25

Accumulated Fund 01/01/2015

Assets		**€**		**€**	
Clubhouse and course		650,000	[1]		
Bar stock		6,000	[1]		
Equipment		24,000	[1]		
Bar debtors		355	[1]		
Investments	**W 1**	62,500	[2]		
Levy due		1,000	[2]		
Investment interest due	**W 2**	300	[2]	744,155	
Less Liabilities					
Life membership		40,000	[2]		
Bar creditors		3,000	[1]		
Wages due		1,500	[1]		
Levy reserve fund		50,000	[2]		
Subscriptions prepaid		1,400	[2]		
Loan		30,000	[1]		
Loan interest due	**W 3**	600	[3]		
Bank current account		8,500	[1]	(135,000)	
Accumulated fund 01/01/2015				609,155	[2]

(b)

27

Income and Expenditure Account for the year ended 31/12/2015

Income		**€**		**€**	
Bar profit	**W 4**			55,515	[4]
Investment interest	**W 2**			2,500	[2]
Subscriptions	**W 5**			67,500	[6]
Life membership	**W 6**			5,000	[2]
Catering profit	**W 7**			2,300	[2]
Competition profit	**W 8**			3,500	[1]
Entrance fees				10,000	[1]
Annual sponsorship				11,400	[1]
				157,715	
Less Expenditure					
Sundry expenses	**W 9**	122,850	[2]		
Loan interest	**W 3**	2,400	[1]		
Depreciation - clubhouse and course		13,000	[1]		
Depreciation - equipment		8,400	[1]		
Bad debt		80	[1]	(146,730)	
Surplus of income over expenditure				10,985	[2]

(c) **8**

Levy – This is a payment made to a club by its members to fund a special project such as a clubhouse extension. It must be used for the purpose for which it is collected. It is a capital receipt (on a once off basis or for a specific number of years) and is credited to a reserve fund. It is due to the members until it is used so it is treated as a long-term liability in the balance sheet.

Life Membership – This is where a club member pays a fee that entitles her/him to use the facilities of the club for the rest of her/his life. It is treated as a long-term liability in the balance sheet and can be written off to income over a stated number of years.

Workings

1. Investments

4%	=	2,500	
Therefore 100%	=		62,500

2. Investment interest

2,400 - 300 + 400	=		2,500

3. Loan interest

8% × 1.25 years	=	10%	
33,000	=	110%	
Loan (100%)	=	30,000	
Total interest (10%)	=	3,000	
Interest for 2014	=		600
Interest for 2015	=		2,400

4. Bar Trading Account

	€	€
Sales (76,300 - 355 + 500)		76,445
Stock 01/01/2015	6,000	
Add Purchases (33,600 – 3,000 + 1,230)	31,830	
	37,830	
Less Closing stock	(16,900)	(20,930)
Bar profit		55,515

5. Subscriptions

Subscriptions	102,900
Add prepaid 01/01/2015	1,400
Less prepaid 31/12/2015	(800)
Less life membership	(10,000)
Less levy 2015	(25,000)
Less levy 2014	(1,000)
	67,500

6.	**Life Membership**	50,000 (40,000 + 10,000) ÷ 10	=	5,000
7.	**Catering Profit**	6,500 - 4,200 (4800 - 600)	=	2,300
8.	**Competition Profit**	25,600 - 22,100	=	3,500
9.	**Sundry Expenses**	124,350 - 1,500	=	122,850

Question 4

(a)

52

Balance Sheet as at 31/12/2015

Intangible Assets					€	€	
Goodwill		W 1				51,100	[3]
Fixed Assets							
Buildings	(450,000 + 295,000)				745,000 [4]		
Equipment		W 2			11,200 [3]	756,200	
Financial Assets							
Investments						15,639	[5]
						822,939	
Current Assets							
Stock at 31/12/2015			17,300	[2]			
Trade debtors			37,300	[2]			
Bank		W 3	112,700	[5]			
Rates prepaid		W 4	2,700	[3]	170,000		
Less Creditors: **amounts falling due within 1 year**							
Creditors			44,600	[2]			
Interest due		W 5	1,750	[3]			
Electricity due			760	[2]	(47,110)		
Working capital						122,890	
						945,829	
Financed by							
Creditors: **amounts falling due after more than 1 year**							
Loan						350,000	[2]
Capital - Balance at 01/01/2015					560,000 [2]		
Add Capital introduced					4,200 [3]		
Less Drawings		W 6			(31,643) [7]	532,557	
						882,557	
Add Net profit						63,272	[4]
Capital employed						945,829	

(b)

8

O'Neill should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O'Neill to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates or net worth to ascertain profit.

Workings

1. Goodwill account – (Purchase price less net worth)

			€
Purchase price			490,000
Assets			
Buildings	450,000		
Stock	15,700		
Rates prepaid	2,400		
Debtors	26,600	494,700	
Less Liabilities			
Wages due	4,800		
Creditors	51,000	(55,800)	
Net worth			(438,900)
Goodwill			51,100

2. Equipment less drawings 30% [16,000 - 4,800] 11,200

3. Bank Account

	€		€
Lodgement	560,000	Business	490,000
Loan	350,000	Drawings	7,800
Capital introduced	4,200	Wages	94,000
Cash lodgements	145,000	Equipment	16,000
		Purchases-premises	295,000
		Investments	15,600
		Light and heat	9,200
		Interest	3,500
		Rates	10,800
		College fees	4,600
		Balance	**112,700**
	1,059,200		1,059,200

4. Rates - amount paid

Rates - amount paid	10,800
Add rates prepaid 01/01/2015	2,400
Less rates prepaid 31/12/2015 [25% × 10,800]	**(2,700)**

5. Interest - amount paid

Interest - amount paid	3,500
Add interest due	1,750
	5,250
Less drawings	**(1,575)**

6. Drawings

Drawings of stock	9,880
Cash/bank	7,800
College fees – family member	4,600
Equipment	4,800
Light and heat	2,988
Interest	1,575
	31,643

7. Light and heat - amount paid

Light and heat - amount paid	9,200
Add electricity due 31/12/2015	760
	9,960
Less drawings [30% × 9,960]	**(2,988)**

Question 5

(a)

50

(i) **Cash Purchases** = total purchases less credit purchases

Total purchases = cost of sales + closing stock - opening stock

Total purchases = 752,000 + 65,000 - 55,000

Total purchases = 762,000

Credit purchases = $\frac{90,000 \times 12}{2}$ = 540,000

Cash purchases = 762,000 - 540,000 = **222,000** **[12]**

(ii) **Dividend Yield**

$\frac{\text{Dividend per share} \times 100}{\text{Market price}} = \frac{7 \times 100}{125} =$ **5.6%** **[10]**

(iii) **Price earnings ratio**

$\frac{\text{Market price}}{\text{EPS}} = \frac{125}{23.6} =$ **5.3 to 1**
5.3 years **[10]**

(iv) **Return on Capital Employed**

$\frac{\text{Operating profit} \times 100}{\text{Capital employed}} = \frac{145,000 \times 100}{1,128,000} =$ **12.85%** **[9]**

(v) **Dividend Cover**

$\frac{\text{Net profit - preference dividend}}{\text{Ordinary dividend}} = \frac{133,000 - 15,000}{35,000} =$ **3.37 times** **[9]**

(b)

35

Profitability [6]
The ROCE has improved from 10.3% in 2014 to 12.85% in 2015. Doherty Ltd is a profitable company. The return is well above the return from risk free investments of 2**%**. The return is also above the company's cost of borrowing of 6%. The company is making efficient use of its resources.
Shareholders will be pleased with this. If this upward trend continues the debentures can be paid in 2017 without having to sell the secured assets.

Dividend Policy [6]
The dividend per share has improved from 6c in 2014 to 7c in 2015. The dividend yield has improved from 5.22% in 2014 to 5.6% in 2015. This is above the return from risk free investments of 2%. The dividend cover has also improved from 2.2 times in 2014 to 3.37 times in 2015. While shareholders will be happy with the improving trends, they will feel that the company has the scope to pay a higher proportion of profits in dividends. Alternatively they could be pleased that profits and cash are retained for the purpose of repaying debenture holders/expansion.

Liquidity [5]
The quick ratio has improved from 1.2 to 1 in 2014 to 1.63 to 1 in 2015. Doherty Ltd. has good liquidity. It should have no problem paying short term debts when they fall due. There is 163c available in liquid assets for every €1 owed in the short term. Shareholders will be pleased with this as there is good ability to pay a dividend and interest as well as having funds available for investment.

Market Price of a Share [4]
The market price of a share has improved from €1.15 in 2014 to €1.25 in 2015. This indicates market confidence in the company which will please shareholders. The price earnings ratio has fallen from 8.7 years to 5.3 years and this means it will take a shorter time-period for an ordinary shareholder to recover his/her investment in one share.

Gearing [6]
The gearing has improved from 54% in 2014 to 44.33% in 2015. The company has moved into a low geared position. The company is not dependent on outside borrowing and is not at risk from outside investors. The interest cover has improved from 6 times in 2014 to 12.08 times in 2015. The company has no problem paying its interest charges.

Sector [5]
The company is in the tourist sector. This is a growing industry at the moment. As economies around the world recover, people have more disposable income to spend on holidays. The weakness of the euro against sterling and the dollar also makes Ireland a cheaper destination for foreign visitors. If there is continued economic growth and the euro remains weak, then future prospects are good.

Overall shareholders will be happy with this and I would buy the shares in the company. **[3]**

(c) **15**

(i) **Gearing -** This is a measure of how a business is financed on a long-term basis. It measures the relationship between fixed interest debt (loans/debentures + preference shares) and total capital employed/equity. When this is less than 50%/100%, the business is lowly geared. Above 50%/100% is highly geared. Low gearing is preferable.

(ii) **Benefits of low gearing -** When fixed interest debt is a small proportion of overall capital it has the following benefits:
1. Low interest repayments means more profits are available for investment elsewhere in the business.
2. Shareholders are more likely to get a dividend when gearing is low.
3. The business should find it easier to raise additional loan finance.
4. Less risk of liquidation due to not being able to make interest payments.

(iii) **Possible ways to reduce gearing**:
1. Sell more ordinary shares.
2. Reduce or repay loans.
3. Increase reserves/retained profits.
4. Convert long-term debt to ordinary shares.

Question 6

(a) **54**

		Dr	Cr
		€	€
(i)	Equipment a/c	1,800 **[2]**	
	Creditors a/c		5,600 **[2]**
	Purchases a/c	2,800 **[3]**	
	Suspense a/c	1,000 **[3]**	
	Correction of an incorrect treatment of a credit purchase **[1]**		
(ii)	Debtors a/c	1,530 **[3]**	
	Sales a/c		1,530 **[3]**
	Motor vehicles a/c		2,400 **[3]**
	Provision for depreciation on motor vehicles a/c	900 **[3]**	
	Cash a/c	1,350 **[3]**	
	Loss on sale – profit and loss a/c	150 **[3]**	
	Correction of an incorrect treatment of a delivery van sale **[1]**		
(iii)	Profit and loss a/c	800 **[2]**	
	Insurance company a/c (balance sheet)		340 **[3]**
	Tenant rent a/c (balance sheet)		460 **[3]**
	Being recording of insurance due and rent receivable prepaid omitted from books **[1]**		
(iv)	Sales returns a/c	880 **[2]**	
	Debtors a/c		880 **[2]**
	Being correction of incorrect recording of credit note to debtor **[1]**		
(v)	Purchases/purchases returns a/c	10,500 **[3]**	
	Creditors a/c	16,000 **[3]**	
	Suspense a/c		26,500 **[3]**
	Being correction of the incorrect treatment of purchases returns **[1]**		

(b) **6**

Suspense Account

Original difference		25,500 **[2]**	Creditors/purchases	(v)	26,500 **[2]**
Equipment/creditors	(i)	1,000 **[2]**			
		26,500			26,500

(c)

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Statement of Corrected Net Profit

			€	€
Original net profit as per books				88,000
Add	Sales/motor vehicles	(ii)		1,530 [2]
				89,530
Less	Purchases	(i)	2,800 [2]	
	Loss on sale	(ii)	150 [2]	
	Rent/insurance	(iii)	800 [1]	
	Sales returns	(iv)	880 [1]	
	Purchases returns	(v)	10,500 [1]	(15,130)
Correct net profit				74,400 [5]

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(d)

Balance Sheet as at 31/12/2015

Fixed Assets		€	€	€
Premises		630,000	---	630,000 [1]
Equipment	[56,000 + 1,800]	57,800 [1]	12,000 [1]	45,800
Motor vehicles	[92,000 – 2,400] [26,000 – 900]	89,600 [1]	25,100 [1]	64,500
		777,400	37,100	740,300
Current Assets				
Stock (including suspense)	[98,000 – 25,500]		72,500 [1]	
Debtors	[41,600 + 1,530 - 880]		42,250 [3]	
Cash	[2,400 + 1,350]		3,750 [2]	
			118,500	
Less: **Creditors**: **amounts falling due within 1 year**				
Creditors	[72,000 + 5,600 - 16,000]	61,600 [3]		
Insurance company		340 [1]		
Creditor - tenant		460 [1]		
Bank		22,000 [1]	(84,400)	34,100
				774,400
Financed by:				
Capital			700,000 [2]	
Profit and loss account			74,400 [1]	774,400
				774,400

(e)

6

Compensating errors: This is where an error on the debit side of one account is compensated by another error of an equal amount on the credit side of another account. For example, a cash payment of €550 for repairs entered as €55 on the debit of the repairs account and on the credit side of the cash account.

Errors of original entry: These are errors made in the books of first entry which are then, subsequently, posted to the appropriate ledger accounts. For example, credit purchases from T. Long €223 entered as €322 in the purchases book and posted accordingly to both the purchases account and to Long's account.

Question 7

40

Profit and Loss Account of Atkinson plc for the year ended 31/12/2015

			€	
Turnover			1,799,700	[2]
Cost of sales	**W 1**		(1,191,000)	[5]
Gross profit			608,700	
Distribution costs	**W 2**		(179,000)	[3]
Administrative expenses	**W 3**		(329,250)	[7]
			100,450	
Other operating income	**W 4**		67,250	[4]
Operating profit			167,700	
Investment income	**W 5**		15,000	[3]
Profit on the sale of land			35,000	[2]
			217,700	
Interest payable			(14,000)	[3]
Profit on ordinary activities before taxation		[1]	203,700	
Tax on profit on ordinary activities			(56,000)	[2]
Profit on ordinary activities after taxation			147,700	
Dividend paid			(43,000)	[2]
Profit retained for the year			104,700	
Profit brought forward on 01/01/2015			72,000	[2]
Profit carried forward on 31/12/2015			176,700	[4]

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Balance Sheet of Atkinson plc as at 31/12/2015

Fixed Assets			€		€		€	
Intangible assets							22,000	[1]
Tangible assets							928,000	[2]
Financial assets							250,000	[1]
							1,200,000	
Current Assets								
Stock			76,000	[1]				
Debtors	**W 6**		123,100	[3]				
Bank			90,000	[1]	289,100			
Creditors: **amounts falling due within 1 year**		[1]						
Trade creditors			94,000	[1]				
Taxation	**W 7**		77,300	[2]				
Other creditors	**W 8**		105,800	[4]	(277,100)			
Net current assets							12,000	
Total assets less current liabilities							1,212,000	
Creditors: **amounts falling due after more than 1 year**								
7% Debentures						[2]	200,000	
Capital and Reserves								
Issued shares					600,000	[2]		[1]
Revaluation reserve	**W 9**				235,300	[3]		
Profit carried forward					176,700	[1]		
							1,012,000	
							1,212,000	

Notes to the Accounts

22

1. Accounting policy notes on Tangible Fixed Assets and Stock [5]

Buildings were re-valued at the end of 2015 and were included in the accounts at their re-valued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value/cost of the tangible assets over their estimated useful economic life, as follows:

Buildings - 2% per annum - straight line basis.
Vehicles - 20% of cost.
Stocks - Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit [5]

Operating profit is arrived at after charging:

Depreciation on tangible assets	72,000
Patent amortised	11,000
Directors' remuneration	26,000
Auditors' fees	18,000

3. Dividends [2]

Ordinary dividend	
Paid 6.96c per share	33,400
Preference dividend	
Paid 8c per share	9,600

4. Tangible Fixed Assets [7]

	Land/Buildings	Vehicles	Total
Value 01/01/2015	785,000	290,000	1,075,000
Disposal	(85,000)		(85,000)
Revaluation surplus 31/12/2015	100,000		100,000
Value at 31/12/2015	800,000	290,000	1,090,000
Depreciation 01/01/2015	121,300	104,000	225,300
Charge for the year	14,000	58,000	72,000
	135,300	162,000	297,300
Transfer on revaluation	(135,300)	-	(135,300)
Depreciation 31/12/2015	------	162,000	162,000
Net book value 01/01/2015	663,700	186,000	849,700
Net book value 31/12/2015	800,000	128,000	928,000

5. Contingent Liability [3]

The company has provided €60,000 for a claim made by an employee for unfair dismissal. The company's legal advisers have advised that the company will probably be liable for the full €60,000 of the claim.

Workings

1.	Cost of sales	91,000 + 1,165,000 + 11,000 - 76,000	=	1,191,000
2.	Distribution costs	121,000 + 58,000	=	179,000
3.	Administrative expenses	203,000 + 18,000 + 26,000 + 8,250 + 14,000 + 60,000	=	329,250
4.	Other operating income	46,000 + 8,250 + 13,000	=	67,250
5.	Investment income	5,400 + 9,600	=	15,000
6.	Debtors	129,000 - 15,500 + 9,600	=	123,100
7.	Taxation	21,300 + 56,000	=	77,300
8.	Other creditors	18,000 + 26,000 + 1,800 + 60,000	=	105,800
9.	Revaluation reserve	100,000 + 121,300 + 14,000	=	235,300

(b) **12**

(i) Regulation is important for the following reasons:

1. To ensure that financial statements are consistent from year to year.
2. To ensure that financial statements can be easily compared with other businesses.
3. To ensure that financial statements comply with national and international law.
4. To ensure that the required accounting information is available to external users (e.g. banks).
5. Good regulation makes fraud less likely and builds trust among the investing public.

(ii) The European Union influences regulation by issuing directives. Directives are instructions that are binding on member states. Member states are given a fixed period of time to implement the directive into national law. The purpose of directives is to harmonise accounting practice in member states. An example would be the fourth directive.

Question 8

80

(a)

Overhead		**Basis**	**Total**	**Prod 1**		**Prod 2**		**Service A**		**Service B**	
Indirect materials		Given	380,000	245,000		135,000					
Indirect labour		Given	400,000	280,000		120,000					
Machine maintenance	[1]	Machine hours	12,000	7,200	[1]	4,800	[1]				
Dep. – buildings	[1]	Book value	30,000	15,000	[1]	7,500	[1]	5,000	[1]	2,500	[1]
Factory L & H	[1]	Volume	18,000	9,000	[1]	4,500	[1]	3,000	[1]	1,500	[1]
Factory cleaning	[1]	Floor area	8,000	3,200	[1]	2,400	[1]	1,600	[1]	800	[1]
Canteen	[1]	No. of employees	5,600	3,200	[1]	1,600	[1]	800	[1]	-----	
			853,600	562,600	[1]	275,800	[1]	10,400	[1]	4,800	[1]

(b)

	Production 1		**Production 2**		**Service A**	**Service B**
Overhead costs	562,600		275,800		10,400	4,800
Apportion Service A [70%/30%]	7,280	[2]	3,120	[2]	(10,400)	
Apportion Service B [60%/40%]	2,880	[2]	1,920	[2]		(4,800)
	572,760		280,840			

(c)

Overhead Rate Production 1 - (Machine Hours)

$$\frac{572{,}760}{30{,}000 \text{ hours}} = €19.09 \text{ per machine hour}$$ [6]

Overhead Rate Production 2 - (Labour Hours)

$$\frac{280{,}840}{45{,}000 \text{ hours}} = €6.24 \text{ per labour hour}$$ [6]

(d)

Selling price of Job 650	**€**	
Direct materials (7,500 + 2,800)	10,300.00	[4]
Direct labour (4,000 + 3,900)	7,900.00	[4]
Prime cost	18,200.00	
Overheads		
Production 1 (120 machine hours × €19.09)	2,290.80	[4]
Production 2 (100 labour hours × €6.24)	624.00	[4]
Cost of Job 650	21,114.80	
Margin of 20%	5,278.70	[2]
Selling price of Job 650	26,393.50	[6]

(e) [10]

(i) **Re apportionment of costs**

This is the term used where service department costs are reapportioned/divided between production departments because overheads can only be recovered by being included in the cost of production.

(ii)

Absorption rates

Per labour hour
Per machine hour
Per unit
Percentage of prime cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge for tendering purposes.

Question 9

80

(a)

Production Budget								
	July		**Aug**		**Sept**		**Oct**		**Nov**
Sales	9,000	[1]	9,750	[1]	11,000	[1]	12,000	[1]	12,500
Add Closing stock	5,850	[1]	6,600	[1]	7,200	[1]	7,500	[1]	7,680
	14,850		16,350		18,200		19,500		20,180
Less Opening stock	-------		(5,850)	[1]	(6,600)	[1]	(7,200)	[1]	(7,500)
Required for production	14,850		10,500		11,600		12,300		12,680

(b)

Raw Materials Purchases Budget									
	July		**Aug**		**Sept**		**Oct**		**Nov**
Units of production	14,850	[½]	10,500	[½]	11,600	[½]	12,300	[½]	12,680
Materials per unit	× 3	[½]	× 3		× 3		× 3		× 3
Required for production	44,550	[½]	31,500	[½]	34,800	[½]	36,900	[½]	38,040
Add Closing stock	6,300	[½]	6,960	[½]	7,380	[½]	7,608	[1]	
Less Opening stock	-------		(6,300)	[½]	(6,960)	[½]	(7,380)	[½]	
Required for purchases	50,850	[½]	32,160	[½]	35,220	[½]	37,128	[½]	
Price per kg	× 4	[½]	× 4		× 4		× 4		
Cost of raw materials	€203,400	[½]	€128,640	[½]	€140,880	[½]	€148,512	[½]	

Total purchases €621,432

(c)

Cash Budget								
Receipts	**July**		**August**		**September**		**October**	
Cash sales	81,000	[1]	87,750	[1]	99,000	[1]	108,000	[1]
Credit sales 1 month			94,500	[1]	102,375	[1]	115,500	[1]
Credit sales 2 month					94,500	[1]	102,375	[1]
	81,000		182,250		295,875		325,875	
Payments								
Purchases			203,400	[1]	128,640	[1]	140,880	[1]
Wages	23,500	[1]	24,625	[1]	26,500	[1]	28,000	[1]
Variable overheads	59,400	[1]	42,000	[1]	46,400	[1]	49,200	[1]
Fixed overheads	27,000	[1]	27,000		27,000		27,000	
Equipment	60,000	[1]						
Loan repayments			1,000	[1]	1,000		1,000	
Interest			400	[1]	400		400	
	169,900		298,425		229,940		246,480	
Net monthly cash flow	(88,900)	[1]	(116,175)	[1]	65,935	[1]	79,395	[1]
Loan	48,000	[1]						
Opening cash balance			(40,900)	[1]	(157,075)	[1]	(91,140)	[1]
Closing cash balance	(40,900)		(157,075)		(91,140)		(11,745)	[2]

(d) Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2016

	€	€	€
Sales			1,252,500 [1]
Less cost of sales			
Opening stock		-----	
Purchases		621,432 [1]	
		621,432	
Closing stock - finished goods (7,500 × €20)	150,000 [1]		
- raw materials (7,608 × €4)	30,432 [1]	(180,432)	(441,000)
Gross Profit			811,500
Less Expenses			
Wages		102,625 [1]	
Variable overheads		197,000 [1]	
Fixed overheads		108,000 [1]	
Depreciation		4,000 [1]	(411,625)
Operating profit			399,875
Less interest			(1,200) [1]
Net profit			398,675 [4]

(e) [9]

(i) Recommendations

1. Reduce requirement for closing stock of finished goods, particularly in earlier months to reduce the costs of production.
2. Negotiate a lower price than the €4 per kg, from suppliers when buying raw materials and this will reduce cash expenditure.
3. Encourage debtors to pay earlier by offering discounts for early payment/reduce the period of credit allowed from 2 months to one month, which will increase receipts.
4. Postpone the purchase of equipment in July and instead lease the equipment. This will reduce the deficit in July by €12,000 (€60,000 – €48,000) and by the interest and loan repayments €1,400 thereafter.

(ii)

1. Market research and trends/opinion of sales representatives may be a reliable indicator of potential sales.
2. What is the price to be charged for the product or service?
3. Is the level of competition in the market place intense or not?
4. Is the economy expected to grow over the coming months?

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