



# Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2017

## ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY 19 JUNE – AFTERNOON 2.00 – 5.00

This paper is divided into 3 Sections:

### Section 1: Financial Accounting (120 marks).

This section has four 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 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. 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. Sole Trader – Final Accounts**

The following trial balance was extracted from the books of M. Mullen on 31/12/2016:

	€	€
Delivery vans (cost €150,000)	85,000	
Buildings (cost €680,000)	595,000	
Office equipment (cost €25,000)	15,000	
Patent (incorporating four months investment income)	68,000	
3% Investments (01/05/2016)	200,000	
6% Fixed mortgage		180,000
Debtors and creditors	70,500	78,000
Stock 01/01/2016	66,000	
Purchases and sales	536,500	792,000
Commission	16,500	
Provision for bad debts		3,500
Discount (net)		3,200
Bank		70,300
Salaries and general expenses	145,500	
Rent	10,400	
Mortgage interest paid for the first three months	2,400	
Insurance (incorporating suspense)	17,700	
VAT	6,400	
PAYE, PRSI and USC		21,600
Drawings	15,600	
Capital	<u>          </u>	<u>701,900</u>
	<u>1,850,500</u>	<u>1,850,500</u>

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

- (i) Stock on 31/12/2016 at cost €76,500. This figure includes damaged stock which cost €4,500 and now has a net realisable value of €3,000.
- (ii) Provide for depreciation on delivery vans at the annual rate of 15% of cost from date of purchase to date of sale.  

NOTE: On 31/3/2016 a delivery van which cost €40,000 on 30/09/2012 was traded in against a new van that cost €48,000. An allowance of €18,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction.
- (iii) The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct figure had been entered in the bank account) and a VAT refund of €2,000 entered only in the bank account.
- (iv) Patent, which incorporates 4 months investment income, is to be written off over a five year period commencing in 2016.
- (v) Provision to be made for both investment income due and mortgage interest due.
- (vi) A creditor who was owed €7,600 accepted office equipment with a book value of €6,500 in full settlement of the debt. The office equipment had cost €11,000. No entry was made in the books in respect of this transaction. Provide for depreciation on office equipment held on 31/12/2016 at the rate of 20% of cost.
- (vii) Provide for depreciation on buildings at the rate of 2% of cost per annum. It was decided to revalue the buildings at €800,000 on 31/12/2016.
- (viii) A cheque for €700 had been received on 31/12/2016 in respect of a debt of €1,200 previously written off as bad. The debtor wishes to continue trading with Mullen and has undertaken to pay the remainder within 1 month. No entry was made in the books in respect of this transaction.
- (ix) No record has been made in the books for 'goods in transit' on 31/12/2016. The invoice for these goods has been received showing the recommended retail selling price of €16,000 which is cost plus 25%.
- (x) Goods taken by Mullen for own use during the year were not recorded. These goods had a retail value of €4,800 which is cost plus 20%.

**Required:**

- (a) Prepare a trading and profit and loss account for the year ended 31/12/2016. (75)
  - (b) Prepare a balance sheet as at 31/12/2016. (45)
- (120 marks)**


## 2. Cash Flow Statement

The following are the balance sheets of Grant plc as at 31/12/2016 and 31/12/2015 together with an abridged profit and loss account for the year ended 31/12/2016.

### Abridged Profit and Loss Account for the year ended 31/12/2016

	€
Operating profit	157,000
Investment income for the year	2,000
Interest for the year	<u>(12,000)</u>
Profit before taxation	147,000
Taxation for the year	<u>(44,000)</u>
Profit after taxation	103,000
Dividends paid	<u>(32,000)</u>
Retained profit for the year	71,000
Retained profit on 01/01/2016	<u>85,000</u>
Retained profit on 31/12/2016	<u>156,000</u>

Balance Sheets as at	31/12/2016		31/12/2015	
	€	€	€	€
<b>Fixed Assets</b>				
Land and buildings at cost	720,000		635,000	
Less accumulated depreciation	<u>(75,000)</u>	645,000	<u>(60,000)</u>	575,000
Machinery at cost	405,000		325,000	
Less accumulated depreciation	<u>(185,000)</u>	<u>220,000</u>	<u>(163,000)</u>	<u>162,000</u>
		865,000		737,000
<b>Financial Assets</b>				
Investments at cost		75,000		280,000
<b>Current Assets</b>				
Stock	151,000		144,000	
Debtors	148,000		135,000	
Investment income due	300		400	
Government securities	40,000		-----	
Cash	<u>3,500</u>		<u>2,000</u>	
	<u>342,800</u>		<u>281,400</u>	
<b>Less Creditors: amounts falling due within 1 year</b>				
Trade creditors	180,000		210,000	
Bank	8,000		12,000	
Interest due	2,800		3,400	
Taxation	<u>36,000</u>		<u>45,000</u>	
	<u>226,800</u>	<u>116,000</u>	<u>270,400</u>	<u>11,000</u>
		<u>1,056,000</u>		<u>1,028,000</u>
<b>Financed by</b>				
<b>Creditors: amounts falling due after more than one year</b>				
8% Debentures		180,000		350,000
<b>Capital and Reserves</b>				
Ordinary shares @ €1 each	700,000		580,000	
Share premium	20,000		13,000	
Profit and loss account	<u>156,000</u>	<u>876,000</u>	<u>85,000</u>	<u>678,000</u>
		<u>1,056,000</u>		<u>1,028,000</u>

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The following information is also available:

1. There were no disposals of machinery during the year but new machines were acquired.
2. New buildings were purchased during the year for €200,000. Buildings were sold during the year at a loss of €15,000.
3. Depreciation charged for the year on buildings in arriving at the operating profit was €42,000.

**Required:**

- (a)** Prepare the cash flow statement of Grant plc for the year ended 31/12/2016 including reconciliation statements. (52)
- (b)** (i) Cash flow statements are useful in assessing solvency. Explain the underlined term.
- (ii) Financial Reporting Standard 1 requires companies to prepare a cash flow statement. What is a Financial Reporting Standard?
- (iii) Grant plc has reduced its gearing significantly between 2015 and 2016. What are the implications of this change? (8)

**(60 Marks)**

### 3. Revaluation of Fixed Assets

On 1 January 2012, Cummins Ltd owned freehold property which cost €960,000, consisting of adjacent land €240,000 and buildings €720,000. The company depreciates its buildings at the rate of 2% per annum using the straight line method. It is the company's policy to apply a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. The property had been purchased ten years earlier and depreciation had been charged against profits in each of these ten years (land is not depreciated).

The following details were taken from the firm's books:

- Jan 1 2012 Revalued property at €1,140,000. Of this revaluation, €315,000 was attributable to land.
- Jan 1 2013 Sold for €420,000 land which cost €240,000 but was since revalued on 01/01/2012.
- Jan 1 2014 Purchased buildings for €360,000. During 2014, €90,000 was paid to a building contractor for an extension to the recently purchased buildings. The company's own employees also worked on this extension and they were paid wages amounting to €30,000 by Cummins Ltd for their work.
- Jan 1 2015 Revalued the buildings owned at €1,435,500 (a 10% increase in respect of each building).
- Jan 1 2016 Sold for €937,500 the buildings owned on 01/01/2012. The remaining buildings were revalued at €570,000.

#### Required:

- (a) (i) Prepare the relevant ledger accounts in respect of the above transactions for the years ended 31 December 2012 to 31 December 2016.  
(Bank account and profit and loss account **not** required).
- (ii) Show the relevant extract from the balance sheet as at 31/12/2016. (52)
- (b) (i) Explain why it is important for firms to revalue their fixed assets.
- (ii) Outline the factors that affect the price of property on the market. (8)
- (60 marks)**

#### 4. Departmental Final Accounts of a Sole Trader

The Byrne family's firm is divided into two departments – Ladieswear and Menswear. The following balances were extracted from its books on 31/12/2016:

	€	€
Capital		316,500
Buildings at cost	440,000	
Delivery vans at cost	40,000	
Debtors and creditors	43,100	50,000
4% Fixed mortgage		150,000
Ladieswear department		
Stock 01/01/2016	25,000	
Purchases and sales	210,000	300,000
Carriage in	4,000	
Menswear department		
Stock 01/01/2016	16,000	
Purchases and sales	140,000	200,000
Import duty	1,000	
Returns out		3,000
Salaries and general expenses	75,600	
Advertising	6,000	
Insurance	8,400	
Light and heat	10,300	
Cleaning	9,100	
Bank		<u>9,000</u>
	<u>1,028,500</u>	<u>1,028,500</u>

You are given the following additional information:

- (i) Stock at 31/12/2016:           Ladieswear:     28,000  
  Menswear:       17,000
- (ii) Insurance was for the year ended 28/02/2017.
- (iii) The advertising payment was for a 15 month campaign which began on 01/03/2016.
- (iv) Depreciation is to be provided as follows:  
        Delivery vans at 20% of cost.  
        Buildings at 2% of cost.
- (v) Provision should be made for a year's mortgage interest.
- (vi) The floor space of the firm is divided as follows:  
        Ladieswear:         800 square metres  
        Menswear:         200 square metres
- (vii) Expenses applicable to both departments should be divided on the basis of sales or floor space where appropriate.

#### Required:

- (a) Prepare a departmental trading and profit and loss account for the year ended 31/12/2016. (50)
- (b) What recommendations would you make as manager of the Byrne family's firm based on the prepared accounts? (Note: Retail shopping space is renting for €35 per square metre.) (10)

**(60 marks)**

**SECTION 2 (200 marks)**  
Answer any **TWO** questions

**5. Interpretation of Accounts**

The following figures have been taken from the final accounts of JB plc, a health food manufacturer, for the year ended 31/12/2016. The company has an authorised capital of €1,000,000 made up of 700,000 ordinary shares at €1 each and 300,000 5% preference shares at €1 each. The firm has already issued 450,000 ordinary shares and 150,000 of the 5% preference shares.

<b>Trading and Profit and Loss account for year ended 31/12/2016</b>		
	€	€
Sales		880,000
Opening stock	73,000	
Cost of goods sold		(565,000)
Operating expenses for year		(185,000)
Interest		<u>(16,000)</u>
Net profit		114,000
Dividends paid		<u>(50,000)</u>
Retained profit		64,000
Profit and loss balance 01/01/2016		<u>15,000</u>
Profit and loss balance 31/12/2016		<u>79,000</u>

<b>Ratios and information for year ended 31/12/2015</b>	
Earnings per ordinary share	18c
Dividend per ordinary share	8c
Interest cover	6 times
Quick ratio	0.80 : 1
Return on capital employed	12%
Market value of an ordinary share	€1.20
Gearing	45%
Dividend cover	2.25 times
Dividend yield	6.67%

<b>Balance Sheet as at 31/12/2016</b>	€	€	€
<b>Fixed Assets</b>			
Intangible		150,000	
Tangible		<u>580,000</u>	730,000
Investments (market value 31/12/2016 – €120,000)			<u>100,000</u>
			830,000
<b>Current Assets</b> (including debtors €45,000)		130,000	
<b>Less Creditors: amounts falling due within 1 year</b>			
Bank overdraft	(26,000)		
Trade creditors	<u>(55,000)</u>	<u>(81,000)</u>	<u>49,000</u>
			<u>879,000</u>
<b>Financed by</b>			
8% debentures (2019 secured)			200,000
<b>Capital and Reserves</b>			
Ordinary shares @ €1 each		450,000	
5% preference shares @ €1 each		150,000	
Profit and loss balance		<u>79,000</u>	<u>679,000</u>
			<u>879,000</u>

Market value of one ordinary share **€1.35** on **31/12/2016**.

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**(a) You are required to calculate the following for 2016:** (where appropriate calculations should be made to **two** decimal places).

- (i) The closing stock if the rate of stock turnover is 10 based on average stock.
- (ii) The dividend yield.
- (iii) The earnings per ordinary share.
- (iv) The return on equity funds.
- (v) Interest cover. (50)

**(b)** Advise the bank manager if a loan of €300,000, on which a rate of 6% would be charged, should be granted to JB plc.

The loan is to finance the modernisation of their manufacturing plant.

Use relevant ratios, percentages and other information to support your answer. (40)

**(c)** (i) Employees are users of financial information. If you were an employee of JB plc explain why the financial information of the company would be of interest to you.

(ii) Identify **two** other users of financial information. (10)

**(100 marks)**

## 6. Service Firm

The following were included in the assets and liabilities of Fitpro Fitness Centre Ltd on 01/01/2016:

Buildings and grounds at cost €600,000, equipment at cost €80,000, furniture at cost €40,000, stock in shop €5,000, stock of heating oil €1,800, contract cleaning prepaid €200, investment interest due €300, creditors for supplies to the fitness centre €2,000, members' fees paid in advance €3,000. The authorised capital of the company was €500,000 and the issued capital was €350,000.

**All fixed assets have 3 years accumulated depreciation on 01/01/2016.**

The following is a receipts and payments account for the year ended 31/12/2016:

### Receipts and Payments Account of Fitpro Fitness Centre Ltd for year ended 31/12/2016

	€		€
Balance at bank 01/01/2016	59,500	Wages and salaries	83,000
Members' fees	270,000	Telephone and broadband	1,700
Interest on 3% investments	3,000	Insurance	7,200
Shop receipts	85,000	Purchases – shop	38,600
Sale of furniture (cost €20,000)	10,000	Purchases – supplies for fitness centre	43,200
		Contract cleaning	8,300
		Light and heat	5,600
		Purchase of adjacent building on 01/04/2016	150,000
		Furniture	12,000
		Laundry	11,600
		Bank loan plus 15 months interest at 4% per annum on 01/04/2016	63,000
		Balance at bank 31/12/2016	<u>3,300</u>
	<u>427,500</u>		<u>427,500</u>

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

- (i) Closing stock at 31/12/2016: shop €1,800, heating oil €400.
- (ii) Cleaning is done under contract payable monthly in advance and includes a payment of €600 for January 2017.
- (iii) Members' fees include €4,200 for 2017. Members' fees in arrears at 31/12/2016 were €2,700.
- (iv) The closing bank figure does not take into account bank charges €110 and a dishonoured cheque €950 received from a member in respect of fees.
- (v) The payment for laundry includes €2,700 for three weeks wages paid to a replacement fitness instructor. Provide for a further two weeks wages due.
- (vi) Wages and salaries include €24,000 per annum paid to the secretary, who also runs the shop. It is estimated that 60% of this salary and €300 of the light and heat, €850 of the insurance and €400 of the telephone and broadband is attributable to the shop.
- (vii) Creditors for supplies at 31/12/2016 were €3,600.
- (viii) Depreciation is to be provided as follows:
  - Buildings and grounds 2% of cost from date of purchase.
  - Equipment 20% of cost.
  - Furniture held on 31/12/2016 is depreciated at 20% of cost. No depreciation is charged on furniture in the year of disposal.

**Required:**

- (a) Prepare a statement of the company's reserves (profit and loss balance) on 01/01/2016. (18)
  - (b) Calculate the profit/loss from the shop for the year ended 31/12/2016. Show workings. (10)
  - (c) Prepare a profit and loss account for the year ended 31/12/2016. (32)
  - (d) Prepare a balance sheet on 31/12/2016. (30)
  - (e) Fitpro Fitness Centre Ltd have decided to purchase and install new gym equipment. They have received a quote of €225,000. Can Fitpro Fitness Centre Ltd afford this investment? Explain your answer. (10)
- (100 marks)**

## 7. Tabular Statement

The financial position of Delaney Ltd on 01/01/2016 is shown in the following balance sheet:

<b>Balance Sheet as at 01/01/2016</b>			
	<b>Cost</b>	<b>Dep. to date</b>	<b>Net</b>
	<b>€</b>	<b>€</b>	<b>€</b>
<b>Fixed Assets</b>			
Land and buildings	630,000	25,000	605,000
Vehicles	50,000	27,000	23,000
Equipment	<u>15,000</u>	<u>3,000</u>	<u>12,000</u>
	<u>695,000</u>	<u>55,000</u>	640,000
<b>Current Assets</b>			
Stock	73,000		
Debtors (less provision 4%)	<u>86,400</u>	159,400	
<b>Less Creditors: amounts falling due within 1 year</b>			
Creditors	54,000		
Bank	32,000		
VAT	8,400		
Expenses due	<u>6,000</u>	<u>100,400</u>	<u>59,000</u>
			<u>699,000</u>
<b>Financed by</b>			
<b>Capital and Reserves</b>			
Authorised – 800,000 ordinary shares @ €1 each			
Issued – 560,000 ordinary shares @ €1 each		560,000	
Share premium		30,000	
Profit and loss balance		<u>109,000</u>	<u>699,000</u>
			<u>699,000</u>

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The following transactions took place during 2016:

- Jan Delaney Ltd decided to revalue land and buildings on 01/01/2016 at €800,000. The land element of the new value is €110,000.
- Feb Delaney Ltd bought an adjoining business on 01/02/2016 which included buildings €180,000, equipment €50,000, debtors €12,000 and creditors €20,000. The purchase price was discharged by granting the seller 200,000 shares in Delaney Ltd at a premium of 20c per share.
- Mar Management decided that the provision for bad debts should be increased to 6% of debtors at the end of March.
- April Purchased goods on credit for €14,760. This included VAT of 23%.
- June Received a bank statement on June 30 showing a credit transfer received of €7,200 to cover 8 month's rent received in advance from June 1 and a direct debit of €4,800 to cover security (costs) for the year ended 30/04/2016.
- July Paid by cheque a creditor account balance of €1,800 and received a discount of €100.
- Aug A payment of €900 was received from J. Barry, a debtor, whose debt had been previously written off. This represents 60% of the original debt and Barry has undertaken to pay the remainder of the debt.
- On the same day goods to the value of €369 were sold on credit to Barry. This includes 23% VAT and a mark-up on cost of 20%.
- Sept Received €50,000 from the issue of the remaining shares.
- Oct Goods previously sold for €738 by Delaney Ltd were returned. This figure includes VAT at 23% and a mark-up on cost of 20%. Delaney Ltd issued a credit note for €700 due to a delay in returning these goods.
- Nov A creditor who was owed €4,000 by Delaney Ltd, accepted equipment, the book value of which was €3,200, in full settlement of the debt. The equipment cost €5,400.
- Dec The buildings depreciation charge for the year is 2% of book value. The depreciation charge is to be calculated from the date of valuation and date of purchase. The total depreciation charge on vehicles for the year is €8,000.

**Required:**

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2016.

**(100 marks)**

**SECTION 3 (80 marks)**Answer **ONE** question**8. Marginal Costing**

Clarke Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2016, during which 60,000 units were produced and sold, was as follows:

	€	€
Sales (60,000 units)		1,320,000
Materials	270,000	
Direct labour	207,000	
Factory overheads	240,000	
Administration expenses	101,250	
Selling expenses	<u>82,500</u>	<u>900,750</u>
Net profit		<u>419,250</u>

The materials and direct labour are variable costs. Apart from a sales commission of 5% of sales, selling and administration expenses are fixed. Factory overheads are mixed costs, and have behaved in the past as follows:

Year ended	Output (units)	Factory Overheads in €
31/12/2013	90,000	330,000
31/12/2014	50,000	210,000
31/12/2015	30,000	150,000

**Required:**

- (a) Calculate the variable and fixed elements of factory overheads using the high/low method.
- (b) Calculate the company's break-even point and margin of safety.
- (c) Calculate the number of units that must be sold at €25 per unit to provide a profit of 10% of the sales revenue earned from these same units.
- (d) Calculate the selling price the company must charge per unit in 2017, if fixed costs increase by 12% but the volume of sales and profit remain the same.
- (e) After conducting market research the following options have been proposed.
- Option 1** – Reduce the selling price by 10% and spend an extra €30,000 on advertising to increase sales volume by 20%.
- Option 2** – Spend €40,000 on leasing a new packaging machine (fixed cost). This will reduce the variable cost per unit by €2 maintaining sales at current levels.
- Prepare a marginal costing statement for each option.
- Write a **brief** report for the manager of Clarke Ltd with your recommendation.
- (f) What is meant by the term 'Sensitivity Analysis'?

**(80 marks)**

## 9. Budgeting

O'Sullivan Ltd recently completed its annual sales forecast to the end of 2018. It expects to sell two products – Basic at €260 and Deluxe at €340.

All stocks are to be reduced by 10% from their opening levels by the end of 2018 and are valued using the FIFO method.

	<b>Basic</b>	<b>Deluxe</b>
Expected sales	1,800 units	1,500 units

Stocks of finished goods on 01/01/2018 are expected to be:

Basic	50 units at €220 each
Deluxe	60 units at €290 each

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

	<b>Basic</b>	<b>Deluxe</b>
Material A	5 kgs	7 kgs
Material B	3 kgs	6 kgs
Skilled labour	4 hours	5 hours

Stocks of raw materials on 01/01/2018 are expected to be:

Material A	3,000 kgs @ €4.50 per kg
Material B	2,000 kgs @ €5.50 per kg

The expected prices for raw materials during 2018 are:

Material A	€5.00 per kg
Material B	€6.00 per kg

The skilled labour rate is expected to be €15 per hour.

Production overhead costs are expected to be:

Variable	€8 per skilled labour hour
Fixed	€322,300 per annum

### Required:

- (a) Prepare a production budget (in units).
- (b) Prepare a raw materials purchases budget (in units and €).
- (c) Prepare a production cost/manufacturing budget.
- (d) Prepare a budgeted trading account (you are required to calculate the unit cost of budgeted closing stock of both products).
- (e) Why is it important that a business prepares regular budgets?

**(80 Marks)**

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