



Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2019

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.

Q.1

Trading Profit and Loss Account of Linken Ltd for the year ended 31/12/18 [1]

	€	€	€
Sales			1,582,500 [3]
Less cost of sales			
Opening stock		64,500 [3]	
Add purchases		<u>1,012,000</u> [6]	
		1,076,500	
Less closing stock		<u>(80,150)</u> [5]	<u>(996,350)</u>
Gross profit			586,150
Less Expenses			
Administration			
Patent written off		9,600 [4]	
Salaries and general expenses		246,620 [7]	
Depreciation - buildings		16,500 [4]	
Loss on damaged stock		<u>1,900</u> [3]	
		274,620	
Selling and Distribution			
Depreciation – delivery vans	32,300 [4]		
Advertising	31,200 [2]		
Loss on sale of van	1,500 [5]		
Bad debts	3,920 [3]		
Commission	<u>19,125</u> [3]	<u>88,045</u>	<u>(362,665)</u>
			223,485
Other Operating Income			
Discount received		15,960 [2]	
Reduction in bad debts provision		<u>372</u> [5]	<u>16,332</u>
Operating Profit			239,817
Investment income			8,100 [3]
Debenture interest			<u>(19,950)</u> [3]
Net profit			227,967
Less dividends paid		(55,000) [2]	
Transfer to capital reserve		<u>(10,000)</u> [2]	<u>(65,000)</u>
Retained profit			162,967
Profit and loss balance 01/01/2018			<u>71,500</u> [2]
Profit and loss balance 31/12/2018			<u>234,467</u> [3]

Balance Sheet of Linken Ltd as at 31/12/2018

	Cost	Acc. Depreciation	NBV
	€	€	€
Intangible Assets			
Patents			38,400 [3]
Tangible Fixed Assets			
Buildings	975,000 [2]	16,500 [1]	958,500
Delivery vans	<u>170,000 [3]</u>	<u>57,800 [3]</u>	<u>112,200</u>
	<u>1,145,000</u>	<u>74,300</u>	1,070,700
Financial Assets			
3% Investments			<u>360,000 [2]</u>
			1,469,100
Current Assets			
Debtors	90,700 [4]		
Less provision for bad debts	<u>(3,628) [1]</u>	87,072	
Closing stock		80,150 [2]	
Investment Interest due		3,600 [2]	
Compensation due		<u>5,100 [2]</u>	
		175,922	
Creditors: amounts falling due within 1 year			
Creditors	69,100 [2]		
Commission due	19,125 [2]		
Debenture Interest due	15,750 [2]		
VAT	6,800 [2]		
Bank overdraft	<u>64,780 [4]</u>	<u>(175,555)</u>	<u>367</u>
Total net assets			<u>1,469,467</u>
Financed by:			
Creditors: amounts falling due after 1 year			
7% Debentures			300,000 [2]
Capital and Reserves	Authorised	Issued	
Ordinary shares @ €1 each	700,000	500,000 [1]	
Preference shares @ €1 each	<u>500,000</u>	<u>200,000 [1]</u>	
	<u>1,200,000</u>	700,000	
Revaluation reserve		180,000 [3]	
Capital reserve		55,000 [1]	
Profit and loss balance 31/12/2018		<u>234,467</u>	<u>1,169,467</u>
Capital employed			<u>1,469,467</u>

Workings:

1.	Sales	$1,590,000 - 7,500$	1,582,500
2.	Purchases	$1,045,000 - 7,000 - 26,000$	1,012,000
3.	Closing stock	$75,400 - 1,500 + 6,250$	80,150
4.	Patents	$(43,500 + 4,500) \div 5$	9,600
5.	Salaries and general exp.	$243,100 + 2,200 + 460 + 860$	246,620
6.	Depreciation – buildings	$(975,000 - 150,000) \times 2\%$	16,500
7.	Loss on damaged stock	$7,000 - 5,100$	1,900
8.	Depreciation vans	$(170,000 - 5\%) \div 5$	32,300
9.	Loss on sale of van	$25,000 - 14,000 - 9,500$	1,500
10.	Bad debts	$5,600 \times 70\%$	3,920
11.	Commission	$382,500 \times 5\%$	19,125
12.	Discount received	$15,500 + 460$	15,960
13.	Reduction in provision	$4,000 - 3,628$	372
14.	Investment income	$(360,000 \times 3\%) \times 9/12$	8,100
15.	Interest payable	$(240,000 \times 7\%) + (60,000 \times 7\% \times 9/12)$	19,950
16.	Patents	$48,000 - 9,600$	38,400
17.	Delivery vans	$155,000 - 25,000 + 40,000$	170,000
18.	Acc. depreciation - vans	$35,000 + 32,300 - 9,500$	57,800
19.	Debtors	$98,200 - 7,500$	90,700
20.	Investment income due	$8,100 - 4,500$	3,600
21.	Interest due	$19,950 - 4,200$	15,750
21.	Bank overdraft	$60,000 + 5,600 - 1,680 + 860$	64,780
21.	Bank overdraft	$62,280 + 2,500$	64,780
22.	Revaluation reserve	$(975,000 - 850,000) + 55,000$	180,000

Q.2 Creditors Control Account

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(a) Adjusted Creditors Ledger Control Account

Adjusted Creditors Control a/c			
Balance b/d	524 [2]	Balance b/d	65,432 [2]
Credit note (v)	195 [5]	Restocking charge (ii)	550 [5]
Contra (vi)	545 [4]	Interest (iii)	135 [4]
Balance c/d	<u>65,377 [1]</u>	Balance c/d	<u>524 [1]</u>
	<u>66,641</u>		<u>66,641</u>
Balance b/d	524	Balance b/d	65,377

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(b) Adjusted Schedule of Creditors Account Balances

	€	€
Balance as per list of creditors		66,233 [4]
Add		
Cash/credit purchases (i)	1,480 [3]	
Interest (iii)	119 [4]	
Purchases (iv)	<u>2,320 [4]</u>	<u>3,919</u>
		70,152
Less		
Restocking charge (ii)	4,400 [4]	
Credit note (v)	354 [4]	
Contra (vi)	<u>545 [4]</u>	<u>(5,299)</u>
Net balance as per adjusted control account		64,853 [1]

(c)

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- (i)
- They are prepared to check the accuracy of the ledgers by comparing the balance in the control account to the balance in the list of creditors.
 - Mistakes are noticed more easily and more quickly when using a creditor control account system because it narrows searching for errors to confined areas.
 - When preparing final accounts from incomplete records, creditor control accounts are used to find the amount of credit purchases.
 - The amount owed by the company to the creditors can be easily found.
- (ii) A contra entry can arise when a customer is also a supplier of the business instead of the customer paying us for goods supplied their balance is offset against the amount owing to them for goods or services supplied.

Q.3 Revaluation of Fixed Assets

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(a) (i)

Land and Buildings Account

01/01/14	Balance b/d	480,000 [1]			
01/01/14	Revaluation res.	<u>140,000 [1]</u>	31/12/14	Balance c/d	<u>620,000</u>
		<u>620,000</u>			<u>620,000</u>
01/01/15	Balance b/d	620,000 [1]			
01/01/15	Bank	130,000 [1]			
01/01/15	Bank	50,000 [1]			
01/01/15	Wages	<u>25,000 [1]</u>	31/12/15	Balance c/d	<u>825,000</u>
		<u>825,000</u>			<u>825,000</u>
01/01/16	Balance b/d	825,000	01/01/16	Disposal	120,000 [1]
		<u>825,000</u>	31/12/16	Balance c/d	<u>705,000</u>
		<u>825,000</u>			<u>825,000</u>
01/01/17	Balance b/d	705,000			
01/01/17	Revaluation res.	<u>141,000 [2]</u>	31/12/17	Balance c/d	<u>846,000</u>
		<u>846,000</u>			<u>846,000</u>
01/01/18	Balance b/d	846,000	01/01/18	Disposal	246,000 [1]
01/01/18	Revaluation res.	<u>115,000 [2]</u>	31/12/18	Balance c/d	<u>715,000</u>
		<u>961,000</u>			<u>961,000</u>
01/01/19	Balance b/d	715,000			

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Revaluation Reserve Account

01/01/16	Revenue res.	40,000 [1]	01/01/14	Land and buildings	140,000 [1]
01/01/18	Revenue res.	49,200 [2]	01/01/14	Provision for depreciation	48,000 [1]
31/12/18	Balance c/d	405,000 [1]	01/01/17	Land and buildings	141,000 [1]
		<u>494,200</u>	01/01/17	Provision for depreciation	38,200 [1]
		<u>494,200</u>	01/01/18	Land and buildings	115,000 [1]
		<u>494,200</u>	01/01/18	Provision for depreciation	<u>12,000 [1]</u>
		<u>494,200</u>	01/01/19	Balance b/d	405,000

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Repairs Account

31/12/16	Bank	<u>10,000 [1]</u>	31/12/16	Balance c/d	<u>10,000</u>
		<u>10,000</u>			<u>10,000</u>
01/01/16	Balance b/d	10,000			

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Provision for Depreciation Account

01/01/14	Revaluation reserve	48,000 [1]	01/01/14	Balance b/d	48,000 [2]
31/12/14	Balance c/d	<u>10,000</u>	31/12/14	Profit & loss	<u>10,000 [2]</u>
		<u>58,000</u>			<u>58,000</u>
31/12/15	Balance c/d	<u>24,100</u>	01/01/15	Balance b/d	10,000
		<u>24,100</u>	31/12/15	Profit & loss	<u>14,100 [1]</u>
					<u>24,100</u>
31/12/16	Balance c/d	<u>38,200</u>	01/01/16	Balance b/d	24,100
		<u>38,200</u>	31/12/16	Profit & loss	<u>14,100 [1]</u>
					<u>38,200</u>
01/01/17	Revaluation reserve	38,200 [2]	01/01/17	Balance b/d	38,200
31/12/17	Balance c/d	<u>16,920</u>	31/12/17	Profit & loss	<u>16,920 [2]</u>
		<u>55,120</u>			<u>55,120</u>
01/01/18	Disposal	4,920 [2]	01/01/18	Balance b/d	16,920
01/01/18	Revaluation reserve	12,000 [2]	31/12/18	Profit & Loss	14,300 [1]
31/12/18	Balance c/d	<u>14,300</u>			<u>31,220</u>
		<u>31,220</u>	01/01/19	Balance b/d	14,300

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Disposal Account

01/01/16	Land and buildings	120,000 [1]	01/01/16	Bank	170,000 [1]
31/12/16	Profit on disposal	<u>50,000 [1]</u>			<u>170,000</u>
		<u>170,000</u>			
01/01/18	Land and buildings	246,000 [1]	01/01/18	Bank	225,000 [1]
			01/01/18	Acc. depreciation	4,920 [1]
		<u>246,000</u>	31/01/18	Loss on disposal	<u>16,080 [1]</u>
					<u>246,000</u>

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Revenue Reserve Account

			01/01/16	Revaluation res.	40,000 [1]
31/12/18	Balance c/d	<u>89,200</u>	01/01/18	Revaluation res.	<u>49,200 [1]</u>
		<u>89,200</u>			<u>89,200</u>
			01/01/19	Balance b/d	89,200

(ii) **Balance Sheet (extract) as at 31/12/2018**

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Fixed Assets	€	€	€
Land and buildings	715,000 [1]	14,300 [1]	700,700
Capital and Reserves			
Revaluation reserve			405,000 [1]
Revenue reserve			89,200 [1]

(b)

- (i) Capital Expenditure – refers to expenditure on items where the benefit derived is expected to last a long time (for more than one year).

E.g. Purchase of land, erection of buildings, purchase of machinery etc.

Revenue Expenditure – refers to expenditure where the benefit derived is of a temporary nature (less than one year).

E.g. Annual rates, light and heat, repairs, etc.

- (ii) Revenue reserve is undistributed profit not paid out to the owners in dividends, it is profit retained by the business.

A revaluation reserve arises when land and buildings are increased in value but the profit made on these revalued fixed assets isn't transferred to the revenue reserve until the fixed asset is sold off. Up until the sale of the fixed asset this profit cannot be distributed to the owners.

Q.4 Tabular Statement

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	01/01/2018	Jan	Feb	Mar	May	Sept.	Nov.	Dec.	Total
Land and buildings	660,000	140,000 [1]	120,000 [1]						920,000 [1]
Depreciation – L & B	(33,000)	33,000 [2]						(15,600) [2]	(15,600)
Vehicles	85,000		35,000 [1]						120,000
Depreciation - vehicles	(38,000)							(21,000) [1]	(59,000)
Stock	57,120						(650) [2]		56,470
Debtors	82,400		15,300 [2]				360 [2] 780 [1]		98,840
Bad debts provision	(4,120)			212 [2]					(3,908) [1]
Insurance prepaid					4,800 [2]			(3,200) [2]	1,600
Goodwill			22,700 [2]						22,700
Total Assets	809,400	173,000	193,000	212	4,800	---	490	(39,800)	1,141,102
Share capital	450,000		140,000 [2]						590,000
Share premium	59,000		42,000 [2]						101,000
Revaluation reserve		173,000 [2]							173,000
Profit and Loss	205,400			212 [2]		(29,500) [2]	1,200 [2] 130 [2]	(15,600) [1] (21,000) [1] 6,400 [1] (3,200) [1]	144,042 [2]
Creditors	64,000		11,000 [2]						75,000
Bank	24,000				(8,800) [1] 4,800 [1]	29,500 [2]	(840) [2]		48,660 [2]
Expenses due	7,000								7,000
Rent receivable					8,800 [2]			(6,400) [2]	2,400 [1]
Total Liabilities	809,400	173,000	193,000	212	4,800	---	490	(39,800)	1,141,102

Q.5 Interpretation of Accounts

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(a)

(i) Cash sales if the average period of credit given to debtors is 1.5 months

$$\frac{\text{Debtors}}{\text{Credit sales}} \times 12 = 1.5 \text{ months}$$

$$\frac{78,000}{X} \times 12 = 1.5 \quad 936,000 = 1.5x \quad x = 624,000$$

Cash sales = total sales – credit sales

$$960,000 - 624,000 = \text{€}336,000 \quad [10]$$

(ii)

$$\text{Dividend yield} = \frac{\text{dividend per share}}{\text{market value}} \times 100$$

$$\text{DPS} = \frac{\text{Ordinary dividend}}{\text{Issued ord. shares}} \times 100 = \frac{35,000}{500,000} \times 100 = 7 \text{ cent}$$

$$\text{Dividend yield} = \frac{\text{dividend per share}}{\text{market value}} \times 100 = \frac{7}{135} \times 100 = 5.19\% \quad [10]$$

(iii) Dividend cover $\frac{\text{net profit} - \text{preference dividend}}{\text{Ordinary dividend}}$

$$\frac{90,000 - 20,000}{35,000} = 2 \text{ times}$$

[10]

(iv)

$$\text{Return on capital employed} = \frac{\text{net profit} + \text{interest}}{\text{capital employed}} \times 100$$

$$\frac{90,000 + 15,000}{1,087,000} \times 100 = 9.66\% \quad [10]$$

(v) $\text{EPS} = \frac{90,000 - 20,000}{500,000} = \frac{70,000}{500,000} \times 100 = 14 \text{ cent}$

$$\frac{\text{Market value}}{\text{EPS}} = \frac{135}{14} = 9.64 \text{ years} \quad [10]$$

(b)

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The shareholders would **be very satisfied** with the performance, state of affairs and prospects of the company for the following reasons: [2]

Performance

Profitability [7]

The return on capital employed for 2018 is 9.66%. In 2017 the return was 5.8%. It has increased by 3.86%, this indicates a healthy trend. Shannon plc is a profitable company as the return of 9.66% is better than the return from risk free investments of 1 - 2% and is better than the debenture rate of 6%. They are making more efficient use of their resources this year.

Dividend Policy [7]

The dividend cover is 2 times. Last year's dividend cover was also 2 times. Shareholders would like to see slightly more profits being retained for expansion purposes and the repayment of loans.

The dividend per share has risen from 5c in 2017 to 7c in 2018. Shareholders would be happy with this improvement, based on current performance this trend is likely to continue. Dividend yield has improved from 4% to 5.19%. Shareholders would be happy that the dividend yield is above the return from risk free investments of 1 – 2%.

State of Affairs

Liquidity [7]

The quick ratio has improved from 0.86:1 to 1.07:1. This is a positive trend and would please shareholders. Shannon plc does not have a liquidity problem. This ratio is above the ideal ratio of 1:1. For every euro Shannon plc owes in the short term it has €1.07 available in liquid assets. This improvement indicates Shannon plc will have no difficulty in paying shareholders a reasonable dividend.

Gearing [7]

The gearing has improved. It has gone from being highly geared in 2017 at 56% to being lowly geared in 2018 at 46%/85.18%. The firm is now financed more by equity than debt. Interest cover has improved from 4.3 times in 2017 to 7 times in 2018. This improving trend would please shareholders as it will make the payment of interest easier.

Investment Policy

Investments which cost €210,000 now have a market value of €250,000, which represents an increase of €40,000 (19%). This indicates efficient use of resources by management and would please shareholders.

Prospects

Sector [5]

Short term prospects are encouraging as the company operates in the renewable energy industry which is a growing industry as more people are becoming environmentally aware e.g. households can receive grant aid for the insulation of solar panels. Long term prospects are even more encouraging as oil supplies are anticipated to be depleted in approximately forty five years. People are actively looking to employ renewable sources of energy.

Market Value of Shares [5]

The share price has risen from €1.25 to €1.35 (10c/8%) since 2017 and this trend is likely to continue based on this year's performance. This will please shareholders as it indicates stock market confidence in the company. Based on current earnings, the time it takes to recover its value is 9.6 years which is also an improvement from 2017 of 12.5 years. This means the share is becoming relatively less expensive to buy as it will take a shorter time period for a shareholder to recover his/her investment in one ordinary share.

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- (c) (i) The current ratio is 1.29:1. This is below the ideal ratio of 2:1.
The acid test ratio is 0.68:1. This is also below the ideal of 1:1.
- (ii) Gener8 Ltd is not liquid which is very serious, as a company that is not liquid may be forced into bankruptcy. Therefore Shannon plc will want to know can the company take any positive action to improve its liquidity position. The poor liquidity of Gener8 Ltd could be a significant factor in whether Shannon plc decides to buy this company or not.

Q.6 Club Account

(a) Accumulated Fund 01/01/2018

Assets	€	€
Clubhouse and course (NBV)	528,000 [2]	
Bar stock	5,800 [1]	
Equipment (NBV)	15,600 [2]	
Bar debtors	480 [2]	
Investment interest due	400 [1]	
4% Investments	67,500 [2]	
Building society	10,000 [1]	
Levy due	<u>1,000 [2]</u>	628,780
Liabilities		
Life membership	45,000 [2]	
Bar creditors	750 [2]	
Wages due	1,640 [1]	
Levy reserve fund	30,000 [2]	
Subscriptions	1,900 [2]	
Bank	7,300 [2]	
Loan due	20,000 [2]	
Loan interest due	<u>650 [2]</u>	<u>(107,240)</u>
Accumulated fund 01/01/2018		<u><u>521,540 [2]</u></u>

(b) Income and Expenditure Account year ended 31/12/2018

Income	€	€
Bar profit	34,440 [6]	
Subscriptions	81,900 [6]	
Investment interest	2,700 [3]	
Profit on catering	4,000 [3]	
Entrance fees	12,000 [1]	
Annual sponsorship	7,400 [1]	
Profit on competition	7,900 [1]	
Life membership w/o	6,000 [2]	
National Lottery grant	<u>15,500 [1]</u>	171,840
Expenditure		
Sundry expenses	81,500 [1]	
Coaching lessons	6,460 [3]	
Loan interest	250 [2]	
Dep: Clubhouse and course	11,000 [1]	
Equipment	<u>7,450 [2]</u>	<u>(106,660)</u>
Excess/surplus income over expenditure		<u><u>65,180 [2]</u></u>

(c) Balance Sheet as at 31/12/2018

Fixed Assets	€	€	€
Clubhouse and course	550,000 [1]	33,000 [2]	517,000
Equipment	<u>41,000 [2]</u>	<u>17,850 [2]</u>	<u>23,150</u>
	<u>591,000</u>	<u>50,850</u>	540,150
Financial Assets			
4% Government investment			67,500 [2]
Current Assets			
Closing stock (13,200 + 400)		13,600 [2]	
Debtors		500 [1]	
Investment interest due		300 [1]	
Bank		<u>83,300 [2]</u>	
		97,700	
Creditors: amounts falling due within 1 year			
Creditors	1,230 [1]		
Wages due	2,500 [1]		
Subscriptions prepaid	<u>900 [2]</u>	<u>(4,630)</u>	<u>93,070</u>
Total net assets			<u>700,720</u>
Financed by:			
Creditors: amounts falling due after 1 year			
Life membership			54,000 [2]
Accumulated fund 01/01/2018		521,540 [1]	
Surplus of income/expenditure		65,180 [1]	
Levy reserve		<u>60,000 [2]</u>	<u>646,720</u>
			<u>700,720</u>

- (d) The club would like to build a new driving range at a cost of €350,000. Outline the options available to the club in funding this project with reference to the accounts.

They could fund it as follows:

Sales of investments	€67,500
Bank balance	<u>€83,300</u>
Total	€150,800
Less levy	<u>(€60,000)</u>
Net available	€90,800

1. Investments can be sold which would realise €67,500.
2. They have a very healthy bank balance of €83,300 and would have no problem meeting interest repayment.

They could fund this extension by borrowing the remainder of €259,200 without having to touch their levy reserve fund. A loan could be obtained as the club is a profitable concern with more than adequate security in the form of its clubhouse and course.

3. Based on the financial results for the year 2018, the club had a surplus of income of €65,180 when this is added to the depreciation of €18,450, a non-cash item. It would indicate a cash inflow from operating activities in the region of €83,630. This shows that the club, based on existing performance is very capable of repaying a loan.

They have also repaid a loan with interest of €20,900 and bought equipment of €15,000, and transferred €10,000 from their building society.

4. A sizeable part of their surplus, €34,900 of the income is coming from annual sponsorship, entrance fees and lottery funding. These are not guaranteed as a source of income.

Workings:

1. Investment income $2,800 - 400 + 300 = 2,700 = 4\%$
 4 % Investment $2,700/4 \times 100 = 67,500$

2. Loan $3/12 \times 18 = 4.5\%$
 $104.5\% = 20,900$
 $100\% = 20,000$
 Interest = 900 = 18 months
 Due 01/01 (13 months) €650, P and L (5 months) €250

3. Bar trading account

	€	€
Bar receipts (66,200 – 480 + 500)		66,220
Less cost of sales		
Opening stock	5,800	
Purchases (38,700 – 750 + 1,230)	39,180	
Less closing stock	<u>(13,200)</u>	<u>(31,780)</u>
Bar profit		<u>34,440</u>

4. Subscriptions $126,900 + 1,900 - 15,000 - 900 - 30,000 - 1,000 = 81,900$
5. Catering $8,500 - 4,900 + 400 = 4,000$
6. Life membership w/o $(45,000 + 15,000)/10 = 6,000$
7. Coaching expenses $5,600 - 1,640 + 2,500 = 6,460$
8. Dep: clubhouse and course $550,000 \times 2\% = 11,000$
9. Dep: equipment $26,000 \times 20\% = 5,200$
 $15,000 \times 20\% = 3,000 \times 9 \div 12 = 2,250$

Q.7 Cash Flow Statement

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(a) (i)

Abridged Profit and Loss Account of Jackson plc for the year ending 31/12/2018

	€	
1. Operating profit	79,750	[1]
2. Investment income	2,400	[3]
3. Debenture interest	<u>(7,200)</u>	[3]
4. Profit before tax	74,950	
5. Taxation	<u>(51,000)</u>	[2]
6. Profit after tax	23,950	
7. Dividends	<u>(30,600)</u>	[3]
8. Retained profit	(6,650)	
9. Profit and loss balance 01/01/2018	<u>42,250</u>	[3]
10. Profit and loss balance 31/12/2018	<u>35,600</u>	[3]

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Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating profit	79,750	[1]
Depreciation charge for the year	72,000	[1]
Loss on sale of fixed assets	1,700	[2]
Increase in bad debts provision	400	[2]
Goodwill written off	11,000	[2]
Increase in stock	<u>(18,500)</u>	[3]
Decrease in debtors	2,000	[3]
Decrease in creditors	<u>(8,000)</u>	[3]
Net cash inflow from operating activities	<u>140,350</u>	

(ii) Cash Flow statement of Jackson plc for the year ended 31/12/2018

	€	€
Operating Activities		
Net cash inflow from operating activities		140,350 [2]
Return on Investment and Servicing of Finance [1]		
Interest paid	(7,800) [4]	
Investment income	<u>2,100</u> [4]	(5,700)
Taxation [1]		
Corporation tax paid		(47,200) [4]
Capital expenditure and financial investment [1]		
Receipts from sale of fixed assets	41,300 [3]	
Payments to acquire tangible fixed assets	<u>(170,000)</u> [5]	(128,700)
Equity Dividends paid [1]		
Equity dividends paid		<u>(30,600)</u> [3]
Net cash outflow before liquid resources and financing		(71,850) [2]
Management of Liquid resources [1]		
Purchase of government securities		(27,000) [3]
Financing [1]		
Issue of debentures	40,000 [3]	
Receipts from share issue	60,000 [3]	
Receipts from share premium	<u>12,000</u> [2]	<u>112,000</u>
Increase in cash		<u>13,150</u> [4]

Reconciliation of net cash to movement in net debt

	€	
Increase in cash	13,150	[1]
Cash received from debentures	(40,000)	[1]
Cash used to purchase liquid resources	<u>27,000</u>	[1]
Change in net debt	150	
Net debt 01/01/2018	<u>(104,150)</u>	[1]
Net debt 31/12/2018	<u>(104,000)</u>	[1]

(b)

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- (i) Non-cash items are items in the profit and loss account that affect the net profit, but they do not affect the cash situation.

E.g. depreciation €72,000, increase in bad debt provision € 400, goodwill written off €11,000, loss on sale of fixed asset €1,700.

- (ii) The purchase of fixed assets decreases cash but does not affect profit.

Or

The sale of fixed assets increases cash but does not affect profit.

The introduction of capital increases cash but not profit.

Or

Drawings reduce cash but has no effect on profit.

Loans received or repaid can also be used as an example, as can investments bought or sold.

Q.8 Overhead Apportionment/Job Costing

80

(a)

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Overhead	Basis	Total	Prod X	Prod Y	Service 1	Service 2
Indirect materials	Given	480,000	265,000	215,000		
Indirect labour	Given	420,000	280,000	140,000		
Machine maintenance	Machine hours	18,000	10,800	7,200	[1]	
Dep - buildings	Book value	36,000	18,000	9,000	[1]	3,000
Factory L & H	Volume	24,000	12,000	6,000	[1]	2,000
Factory cleaning	Floor area	10,000	5,000	3,000	[1]	1,000
Canteen	No. of employees	8,750	3,750	3,750	[1]	1,250
		<u>996,750</u>	<u>594,550</u>	<u>383,950</u>	<u>12,250</u>	<u>6,000</u>

(b)

8

	Production X	Production Y	Service 1	Service 2
Overhead Costs	594,550	383,950	12,250	6,000
Apportion Service 1	7,350	4,900	(12,250)	
Apportion Service 2	3,300	2,700		(6,000)
	<u>605,200</u>	<u>391,550</u>		

(c)

12

Overhead Rate Production X - (Machine Hours)

$$\frac{605,200}{48,000 \text{ hours}} = \text{€}12.61 \text{ per machine hour [6]}$$

Overhead Rate Production Y - (Labour Hours)

$$\frac{391,550}{30,000 \text{ hours}} = \text{€}13.05 \text{ per labour hour [6]}$$

Or based on Machine Hours

$$\frac{391,550}{32,000 \text{ hours}} = \text{€}12.24 \text{ per machine hour}$$

(d)

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Selling price of Job No. 925	€	€	
Direct materials	(8,500 + 3,800)	12,300.00	[3]
Direct labour	(3,000 + 4,900)	<u>7,900.00</u>	[3]
Prime cost		20,200.00	
Overheads:			
Production X	(100 machine hours × €12.61)	1,261.00	[4]
Production Y	(200 labour hours × €13.05)	<u>2,610.00</u>	[4]
Cost of job no. 925		24,071.00	
Margin of 20%		<u>6,017.75</u>	[2]
Selling price of job no. 925		<u><u>30,088.75</u></u>	[6]

Selling price of Job No. 925	€	€	
Direct materials	(8,500 + 3,800)	12,300.00	[3]
Direct labour	(3,000 + 4,900)	<u>7,900.00</u>	[3]
Prime cost		20,200.00	
Overheads:			
Production X	(100 machine hours × €12.61)	1,261.00	[4]
Production Y	(120 machine hours × €12.24)	<u>1,468.80</u>	[4]
Cost of job no. 925		22,929.80	
Margin of 20%		<u>5,732.45</u>	[2]
Selling price of job no. 925		<u><u>28,662.25</u></u>	[6]

- (e) (i) Service departments cannot recover costs because no production takes place in these departments. Service departments are secondary to production departments and as a result, service department costs must be transferred to production departments on an equitable basis e.g. machine hours. Overheads can only be recovered through production i.e. they are included as a cost of production.
- (ii) Allocation is where overhead costs can be specifically identified and charged to a particular department or cost centre. These overheads are allocated to that department.

Apportionment is where overheads cannot be specifically identified but are shared or divided between departments using an appropriate basis of apportionment.

Absorption is the method by which costs are charged to cost units/units of products in order to be recovered. An overhead absorption rate for each department can be calculated using a suitable basis such as rate per unit, per labour hour and per machine hour.

Q.9 Production Budgeting

80

(a) Production Budget

	Dark	Light
Budgeted sales in units	12,600 [2]	7,500 [2]
Add closing stock	715 [2]	462 [2]
Less opening stock	<u>(650) [2]</u>	<u>(420) [2]</u>
Budgeted production (units)	12,665	7,542

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(b) Raw Materials Purchases Budget

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	Material 1	Material 2
Dark	(12,665 × 5 kgs) 63,325	(12,665 × 6 kgs) 75,990
Light	<u>(7,542 × 7 kgs) 52,794</u>	<u>(7,542 × 4 kgs) 30,168</u>
	116,119	106,158
Add closing stock	7,150	6,050
Less opening stock	<u>(6,500) [2]</u>	<u>(5,500) [2]</u>
Purchases of raw materials in kgs	116,769	106,708
Purchase price	<u>× €3</u>	<u>× €6</u>
Purchases of raw materials in €	350,307	640,248

Cost of Raw Materials Purchased = €350,307 + €640,248 = €990,555

(c) Production Cost/Manufacturing Budget

Direct Materials			
Opening stock of raw materials			
Material 1 (6,500 kgs × €2.80)	18,200		
Material 2 (5,500 kgs × €5.10)	<u>28,050</u>	46,250	[4]
Add purchases of raw materials		990,555	[2]
Less closing stock of raw materials			
Material 1 (7,150 kgs × €3)	(21,450)		
Material 2 (6,050 kgs × €6)	<u>(36,300)</u>	<u>(57,750)</u>	[4]
		979,055	
Labour Cost			
Dark (12,665 × 6 hrs × €16)	1,215,840		
Light (7,542 × 8 hrs × €16)	<u>965,376</u>	2,181,216	[4]
Variable overhead			
Dark (12,665 × 6 hrs × €5.50)	417,945		
Light (7,542 × 8 hrs × €5.50)	<u>331,848</u>	749,793	[4]
Fixed overhead		<u>681,630</u>	[2]
Cost of manufacture		<u>4,591,694</u>	[3]

(d) Budgeted Closing stock per unit

		Dark		Light	
Material 1	5 kg × €3	15	[1]	7 kg × €3	21 [1]
Material 2	6 kg × €6	36	[1]	4 kg × €6	24 [1]
Direct labour	6 hrs × €16	96	[1]	8 hrs × €16	128 [1]
Variable overhead	6 hrs × €5.50	33	[1]	8 hrs × €5.50	44 [1]
Fixed overhead	6 hrs × €5	<u>30</u>	[1]	8 hrs × €5	<u>40</u> [1]
		€210		€257	

$$\text{Fixed Overhead} = \frac{681,630}{(12,665 \times 6) + (7,542 \times 8)} = \text{€}5 \quad [2]$$

Budgeted Trading Account for year ended 31/12/2019

Sales	(12,600 × €250) + (7,500 × €300)			5,400,000	[2]
Less cost of sales					
Opening stock	(650 × €180) + (420 × €240)	217,800	[2]		
Cost of manufacture		4,591,694	[1]		
Less closing stock	(715 × €210) + (462 × €257)	<u>(268,884)</u>	[2]	<u>(4,540,610)</u>	
Gross profit				<u>859,390</u>	[2]

- (e)**
1. Establishes the selling price for tendering purposes.
 2. Controls costs by comparing budgeted costs with actual costs.
 3. Helps with planning and decision making.
 4. To find the value of closing stock to be used when calculating profit.

