Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2022
Deferred Examinations

Marking Scheme

ACCOUNTING

Higher Level

Note to teachers and students on the marking schemes for the deferred examinations

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. However, it should be noted that the marking schemes for the deferred examinations may not necessarily be as detailed as the corresponding marking schemes for the main sitting of an examination, which serve to ensure consistency across a large team of examiners.

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 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 between the main sitting and the deferred sitting and from year to year. In the case of the deferred examinations, this means that the level of detail may vary by question, as the marking scheme will only have been finalised for the questions attempted by the candidates who sat these examinations.

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 a senior examiner when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes (whether for the main examinations or the deferred examinations) 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 concerned. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination will not necessarily be the same for the deferred sitting as for the main sitting or from one year to the next.

Question 1 (A)

Trading, Profit and Loss Account of Nolan Ltd for the year ended 31/12/2021 [1]

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Sales			892,900**[6]**
Returns			
Less Cost of Sales			
Stock		48,000**[3]**	
Add Purchases		413,000**[6]**	
		461,000	
Less Stock		(76,200)**[6]**	(384,800)
Gross Profit			508,100
Less Expenses			
Administration			
Patent written off	7,875**[4]**		
Salaries and General Expenses	181,000**[4]**		
Directors Fees	65,500**[6]**		
Loss on fire	2,000**[2]**		
Depreciation (Premises)	17,740**[4]**	274,115	
Selling and Distribution			
Advertising	5,000**[4]**		
Bad Debts written off	3,000**[4]**		
Depreciation (Delivery Van)	28,740**[4]**	36,740	(310,855)
			197,245
Add Operating Income			
Discount			800**[4]**
Operating Profit			198,045
Investment Income			9,000**[4]**
Debenture Interest			(28,000)**[4]**
Net Profit			179,045
Less Appropriations			
Dividends paid			(47,000)**[3]**
Retained Profit			132,045
Profit and Loss Balance 01/01/2021			(52,000)**[4]**
Profit and Loss Balance 01/01/2021			80,045**[2]**

Balance Sheet as at 31/12/2021				
Intangible Fixed Assets				
Patents				55,125**[3]**
Tangible Fixed Assets				
Premises	887,000**[3]**	58,740**[1]**	828,260	
Delivery Vans	120,000**[1]**	52,940**[1]**	67,060	
	100,7000	111,680	895,320	895,320
Financial Assets				
6% Investments				200,000**[3]**
				1,150,445
Current Assets				
Stock		76,200**[3]**		
Debtors	51,200**[4]**			
Less Provision	(3800) **[1]**	47,400		
Insurance Company		38,000**[2]**		
advertising prepaid		25,000**[2]**		
Investment Income Due		3,000**[2]**		
Bank		21,730**[5]**	211,330	
Creditors: Amounts falling due within one year				
Creditors		53,730**[4]**		
Debenture Interest due		28,000**[2]**	(81,730)	129,600
				1,280,045
Financed by				
Creditors: amounts falling due in more than one year				
8% Debentures				400,000**[3]**
Capital and Reserves		Authorised	Issued	
Ordinary Shares at €1 each		900,000**[1]**	500,000**[1]**	
8% Preference Shares at €1 each		500,000**[1]**	300,000**[1]**	
		1,400,000	800,000	
Profit and Loss Balance			80,045**[1]**	880,045
Capital Employed				1,280,045

Workings

1.	Sales	898,000 - 4,800-300	892,900
2.	Purchases	460,000 – 12,000 – 35,000	413,000
3.	Closing stock	75,000 – 2,800 + 4000	76,200
4.	Salaries & general expenses	211,000 - 30,000	181,000
5.	Directors' fees	65,000 + 800 – 300	65,500
6.	Debtors	61,000 – 4,800 – 2,000 – 3,000	51,200
7.	Debenture interest	300,000 × 8% = 24,000	
		100,000 × 8% ÷ 2 = 4,000	28,000
	Debenture interest due		28,000
8.	Patent	60,000 + 3,000 = 63,000 ÷ 8 = 7875	
		63,000 – 7,875	55,125
9.	Bank	17,000 + 3,000 + 2,000 – 270	21,730
		24,880 - 3150	21,730
10.	Advertising	30,000 x 3/18	5,000
		30,000 X15/18	25,000
11.	Investment income Investment income due	200,000 × 6% = 12,000 ÷ 12 × 9 9,000 -3,000-3,000	9,000 3,000
12.	Bad debts	2,000 ÷ 40 × 100 = 5,000 – 2,000	3,000
13.	Creditors	54,000 – 270	53,730
14.	Premises	850,000 – 28,000 + 65,000	887,000
15.	Depreciation premises	887,000 × 2%	17,740
	Accumulated depreciation premises	41,000 +17,740	58,740
16.	Depreciation delivery vans	120,000 – 24,200 = 95,800 × 30%	28,740
	Accumulated depreciation vans	24,200 +28,740	52,940
17.	Discount received		800

Question 1 (B) Final Accounts of a manufacturing company

Manufacturing account of Texas Plc for year ended 31/12/2021

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Manufacturing account for year ended 31/12/21[1]		
Opening stock raw materials	42,600**[1]**	
Purchases raw materials (iv)	652,800**[4]**	
Closing Stock raw materials	(37,600)**[1]**	
Cost of raw materials consumed		**657,800**
Direct Costs		
Factory Wages	118,000**[4]**	
Royalties	38,600**[2]**	
Hire of Special Equipment	52,800**[2]**	**209,400**
Prime Cost		867,200
Factory Overheads		
General Factory overhead (iv)	125,300**[5]**	
Depreciation P&M (ii)	55,500**[4]**	
Dep on factory	14,850 **[3]**	**195,650**
		1,062,850
Factory Cost		
Opening stock Work In Progress	49,200 **[2]**	
Closing stock Work In Progress	(43,800)**[2]**	**5,400**
		1,068,250
Less Sale of Scrap (ii)	2,200 **[4]**	
Profit on Disposal (ii)	250**[5]**	(2,450)
Cost of Manufacture		**1,065,800**

Trading profit and loss account of Texas Plc for year ended 31/12/2021

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Trading Profit and loss account for year ended 31/12/21		
Sales		1,469,500 **[3]**
Less Cost of Sales		
Opening Stock	39,800 **[2]**	
Cost of Manufacture	1,065,800 **[2]**	
Closing Stock	(74,600) **[3]**	(1,031,000)
Gross Profit		438,500
Less expenses		
Selling and Distribution Costs		
Change in PBD	3,216 **[2]**	
Selling expenses	59,780 **[2]**	(62,996)
Administration Expenses		
Administration Expenses	68,200 **[2]**	
dep on buildings	4,950 **[2]**	(73,150)
		302,354
Add Operating Income		
Bad debt recovered	1,500 **[2]**	
Rent	22,000 **[2]**	
Discount	6,500 **[2]**	30,000
Operating Profit		332,354
Investment Income		7,800 **[3]**
Debenture Interest		(16,650) **[3]**
Net Profit		**323,504**
Dividend Paid		(33,500) **[1]**
Retained Profit		290,004
Profit & Loss 01/01/2021		82,000 **[1]**
Profit & Loss 31/12/2021		**372,004 [3]**

Balance sheet as at 31/12/2021			
Tangible Fixed Assets	**Cost**	**Acc Dep**	**BV**
Factory Buildings (vi)	990,000 **[3]**	69,800**[2]**	920,200
Plant and Machinery (ii)	360,000 **[2]**	114,750 **[3]**	245,250
	1,350,000	184,550	1,165,450
Financial Assets			
Investments			**[2]** 260,000
Current Assets			
Closing stock raw material	37,600 **[1]**		
Closing stock Work in Progress	43,800 **[1]**		
Closing stock Finished goods (iii)	74,600 **[1]**	156,000	
Debtors (iii) (v)	53,600 **[4]**		
Less Bad Debt Provision (viii)	3,216 **[1]**	50,384	
Inv Income due (viii)		7,800 **[2]**	
		214,184	
Current Liabilities			
Bank (v)	75,400 **[6]**		
Creditors	73,200 **[5]**		
PAYE	21,600 **[1]**		
Sales Expenses due (viii)	10,780 **[2]**		
Debenture Interest due (viii)	16,650 **[2]**	(197,630)	16,554
			1,442,004
Financed By			
Debentures			290,000**[2]**
Ordinary Share Capital	1,000,000 [1]	550,000 **[1]**	
Preference Share Capital	500,000 [1]	230,000 **[1]**	1,152,004
Revenue reserve / Profit & Loss Balance 31/12/20		372,004 [1]	
			1,442,004

Workings

1.	Sales	1,490,000 -20,500	1,469,500
2.	Purchases	680,800 -28,000	652,800
3.	Closing stock	58,200 + 16,400	74,600
4.	Wages	150,000 -32,000	118,000
5.	Buildings	930,000 + 32,000 +28,000	990,000
6.	Debtors	74,000 -20,500 -500 +600	53,600
7.	General factory overheads	108,800 +500 +16,000	125,300
8.	Machinery	380,000 -20,000	360,000
9.	Depreciation for machinery	380,000 X 15% x .5 =28,500 360,000 x 15% x .5=27,000	55,500
10.	Profit on sale of machinery	20,000 -4,500 -15,750	250
11.	Acc dep Machinery	75,000 -15,750 +55,500	114,750
	Dep buildings	990,000 x 2% = 19,800 Factory 14,850 Admin 4,950	
12.	Debenture interest	240,000 × 6%	14,400
13.	Sale of scrap	6,700 -4,500	2,200
14.	Bank	73,600 -900 +2,700	75,400
15	Creditors	59,900 +16,000 -2,700	73,200
16.	Investment income	260,000 × 4% x .75	7,800
17.	Provision for bad debts	53,600 x 0.06	3216
18.	Selling expenses	49,000 + 10,780	`59,780
19.	Sales Commission	400,000 x 2% = 8,000 69,500 x 4% =2,780	10,780

Vehicle No	Cost	Annual Dep	Dep to 01/01/20	Dep 31/12 2020	Dep 31/12 2021		
1	60,000	12,000	36,000	6,000	-	42,000	
Unit	24,000	4,800/,7200	14,400	2,400		16,800	58,800
2	72,000	14,400	18,000	14,400	14,400		
3	78,000	15,600	15,600	15,600	5,200	36,400	
4	108,000	21,600		10,800	21,600		
5	96,000	19,200			12,800		
			84,000	49,200	54,000		

(a)

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Vehicles Account

01/01/2020	Balance b/d	234,000**[1]**	01/05/2020	Disposal	84,000**[1]**
01/05/2020	Purchases	108,000**[1]**	31/12/2020	Balance c/d	258,000
		342,000			342,000
01/01/2021	Balance b/d	258,000	01/08/2021	Disposal	78,000**[1]**
01/08/2021	Purchases	**96,000[1]**	31/12/2021	Balance c/d	276,000**[1]**
		354,000			354,000
01/01/2022	Balance b/d	288,000			

(b)

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Provision for Depreciation Account

01/05/2020	Disposal	58,800**[4]**	01/01/2020	Balance b/d	84,000**[6]**
31/12/2020	Balance c/d	74,400**[1]**	31/12/2020	P&L	49,200**[8]**
		133,200			133,200
01/08/2021	Disposal	36,400**[4]**	01/01/2021	Balance b/d	74,400
31/12/2021	Balance c/d	92,000**[2]**	31/12/2021	P&L	54,000**[7]**
		128,400			128,400
			01/01/2021	Balance b/d	92,000

(C) **14**

Disposal of Vehicle Account number 1

01/07/2020	Cost	84,000**[2]**	01/07/2020	Provision for Dep	58,800**[2]**
			01/07/2020	Trade In	8,000**[2]**
			31/12/2020	Loss	17,200**[1]**
		84,000			84,000

Disposal of Vehicle Account number 3

01/05/2021	Cost	78,000**[1]**	01/05/2021	Provision for Dep	36,400**[2]**
			01/05/2021	Compensation	20,000**[2]**
			01/05/2021	Trade In	21,000**[1]**
			31/12/2021	Loss	**600[1]**
		78,000			78,000

(d) **8**

(i) Depreciation is an expense. Depreciation is charged so as to write off the cost of the fixed asset over its useful economic life. Failure to include depreciation in the final accounts will result in the profit being overstated and the net worth being overstated in the Balance Sheet and will not show a true and fair view (true value).

[4]

(ii) The factors to be considered when accounting for depreciation are:
Type of asset
Estimated life of asset
Cost of asset
Scrap value of asset at end of life
Method of depreciation **[4]**

Q.3
(a)

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Creditors Control Account

31/12/2021	Balance	590**[2]**	31/12/2021	Balance	46,960**[2]**
	(iv) Credit note	120**[4]**		(i) Restocking	45**[3]**
	Balance	47,275**[2]**		(ii) interest charged	40**[3]**
				(iii) Discount Disallowed	80**[3]**
				(vi) Invoice error	270**[3]**
				Balance c/f	590**[2]**
		47,985			47,985
	Balance	590		Balance c/f	47,275

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(b)

Balance as per list of creditors			45,836**[2]**
Add	(ii) Interest charged	59**[4]**	
	(iii) Discount disallowed	80**[4]**	
	(v) Cash purchased	450**[4]**	
	(vi) Invoice error	960**[4]**	1,549
			47,385
Subtract	(i) Restocking	360**[4]**	
	(iv) Credit note	340**[4]**	(700)
Net balances per adjusted creditors control account			46,685**[2]**

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(c) (i) The debit balance means that Moloney is owed money by at least one of the creditors

(ii) It can arise due to Moloney returning goods having already cleared the amount due to the supplier.
It can arise as a result of a correction of a previous overcharge after Moloney had paid the balance due on the account.
It can arise where Moloney overpaid the supplier.

Q.4

(a)

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Profit and Loss Account of Beech PLC for the year ended 31/12/2021 [1]

Turnover	[2]	1,200,000
Cost of sales	[5]	(585,000)
Gross profit		615,000
Distribution costs	[4]	(116,000)
Administrative expenses	[5]	(359,500)
		139,500
Other operating income	[2]	47,000
Operating profit		186,500
Profit on sale of land	[2]	250,000
Investment income	[2]	6,000
		442,500
Interest payable	[3]	(10,400)
Profit on ordinary activities before tax[1]		432,100
Taxation	[2]	(62,000)
Profit after taxation		370,100
Dividends paid	[2]	(24,000)
Profit retained for year		346,100
Profit brought forward at 01/01/2021	[2]	(26,000)
Profit carried forward at 31/12/2021	[3]	320,100

Workings			
1.	Cost of Sales	65,000 + 605,000 + 5,000 - 90,000	585,000
2.	Distribution Costs	4,000 + 76,000 + 36,000	116,000
3.	Administrative Expenses	60,000 + 258,000 + 6,500 + 13,000+22,000	359,500

Notes to the Accounts

1. **Accounting Policy Notes**

Tangible Fixed Assets [4]

Buildings were revalued at the end of this year and have been included in the accounts at their revalued amount.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life, as follows:

- Buildings 2% per annum straight line basis
- Delivery vans 20% per annum straight line basis

Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. **Operating Profit [3]**

The operating profit is arrived at after charging:	**€**
Depreciation on tangible fixed assets	49,000
Patent amortised	5,000
Directors fees	60,000
Auditors fees	6,500

3. Interest payable [2]

Interest payable on 8% debentures €160,000 (Repayable by **2026)** €10,400

4. Tangible Fixed Assets [5]

Tangible Fixed Assets	**Buildings**	**Vehicles**	**Total**
Cost or valuation 01/01/2021	900,000	180,000	1,080,000
Disposal	(100,000)		(100,000)
Value at 31/12/2021	800,000	180,000	980,000
Depreciation at 01/01/2021		70,000	70,000
Depreciation charge for year	13,000	36,000	49,000
	13,000	106,000	119,000
Net book value 01/01/2021	900,000	110,000	1,010,000
Net book value 31/12/2021	787,000	74,000	861,000

5. **Dividends [2]**

Ordinary dividends	5c per share	€18,000
Preference dividends	6c per share	€6,000

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(b) (i) **The Auditor's report**.

The purpose of the auditor's report is to provide independent verification on the reliability of the Trading profit and loss account and balance sheet that are presented to shareholders and others who rely on the accounts. The auditor must state whether in his or her opinion that the accounts give a true and fair view of the financial state of affairs of the business.

(ii) **Items in a directors report**

1. Directors' own shares purchased.
2. Brief description of last year's results.
3. A statement of future developments.
4. The principal activities of the company and changes therein.
5. Significant changes in fixed assets
6. The amount to be transferred to reserves
7. A report of any changes in the nature of the company's business during the year.
8. A fair review of how the business developed during the year and of the position at the end of the year.
9. A list of the companies associates and affiliates.
10. Details of activities in the area of research and development.
11. Any events affecting the company since the balance sheet date.

Q.5

(a) Interpretation of Accounts **50**

(i) **The Opening Stock if the Rate of Stock Turnover is 8 based on Average Stock**

$$\frac{\text{Cost of Sales}}{\text{Average Stock}} = 8 \text{ times}$$

Average Stock x 8 = 790,000

$$\text{Average Stock} = \frac{790{,}000}{8} = 98{,}750$$

$$\text{Average Stock} = \frac{? + 50{,}000}{2} = 98{,}750$$

Opening stock = €197,500 -€50,000 = €147,500

Opening Stock = €147,500 **[12]**

(ii) **Interest Cover** =

$$\frac{\text{Net profit + interest}}{\text{Interest}} \qquad \frac{50{,}000 + 30{,}000}{30{,}000} = 2.67 \text{ times}$$ **[8]**

(iii) **Dividend Cover**

$$\frac{\text{Net profit – Preference dividend X100}}{\text{Ordinary dividend}} = \frac{50{,}000 – 10{,}500}{34{,}500} = 1.15 \text{ times}$$ **[10]**

(iv) **Return on shareholders funds**

$$\frac{\text{Net profit – Preference dividend X 100}}{\text{Ordinary shares +Reserves}} \qquad \frac{50{,}000 – 10{,}500 \quad \text{X 100}}{350{,}000 + 80{,}000} = 9.19\%$$ **[10]**

(v) **Price Earnings Ratio** =

$$\frac{\text{Market price}}{\text{EPS}} = \frac{160\text{c}}{11.29\text{c}} \qquad 14.17 \text{ years}$$

EPS

$$\frac{\text{Net profit – preference dividend X100}}{\text{Ordinary Share capital}} = \frac{50{,}000 – 10{,}500}{350{,}000} = 11.29 \text{ C}$$ **[10]**

(b) The Shareholders would not satisfied with the performance, state of affairs and prospects of the company for the following reasons: **[2]**

Profitability [7]

The return on capital employed for 2021 is 9.09%. It has dis-improved by 0.91%, from 2020 when the return was 10%. The Return on shareholders funds is also very good at 9.19%.

The company is profitable .The return of 9.09/9.19% is much better than the return from risk free investments of 0-1% & the Preference Capital rate of 7%. However it is below the Debenture rate of 10% .Why borrow money if the return is less than the cost of borrowing.

The company is not making efficient use of its resources this year.

Dividend Policy [7]

The dividend per share is 9.86c in 2021, disimproved from last year's 12c. The dividend yield 6.16% is slightly down on last year's 6.32% but still higher than risk-free investment of 0-1%.

The dividend cover is 1.15 times, the firm is paying out 86.96% of its available profits in Dividends. Last year's dividend cover was 2.5 times meaning the firm was paying out 40% of available profits to shareholders. This would worry shareholders that not enough is being retained for expansion and repayment of loans.

<u>State of Affairs</u>

Liquidity [7]

The Acid Test (Quick Ratio) is improved slightly from 0.95:1 in 2020 to 1:1 in 2021, and equals the ideal of 1:1.

Ash ltd does not have liquidity problems and is able to pay its bills as they arise.

They have 1 euro available in Liquid Assets for every Euro they owe in the short run which means they will have no trouble paying interest and if the trend continues allows for future improved dividends.

Gearing [7]

Gearing has dis-improved. It has gone from being low geared in 2019 at 45% up to 51.14% in 2020, which is highly geared.

This is a negative trend, Ash plc are now more dependent on outside borrowing than before but there would appear to be a significant risk to the firm from outside investors. They are more financed by debt than equity this year.

Interest cover has worsened from 8 times in 2019 to 2.67 times in 2020. The firm could have trouble making their interest payments in the future if this trend continues.

These figures mean that the firm may not have more money available for paying dividends, or reinvesting for expansion purposes, or paying off debt.

The Debentures are not listed for repayment until 2026. Ash Ltd has enough time to put aside resources to be able to repay these when the time comes.

The bank account is overdrawn yet Debtors owe €100,000. Ash should follow up on this.

Prospects
Sector **[5]**

Ash Ltd is in the food processing industry. Although the long-term prospects are good because world population is exploding, the short term is unfavourable due to the effect of the current difficulties with Brexit etc.

Share Performance **[5]**

The earnings per share have dis-improved by 18.71 cent per share from 30 cent in 2020 to 11.29 cent in 2021

The Price Earnings Ratio has increased slightly in the same period from 6.33 years to 14.17 years, meaning it will take a longer time to earn back the Market Price of the share at current performance levels.

The share price has disimproved from €1.90 in 2020 to €1.60 since 2019.

This indicates that the stock market has reduced confidence in the company.

Investment Policy

The market value of investments at €60,000 is lower than the cost of €80,000 and this 25% fall in value indicates poor management of resources. Shareholders will not be pleased with this.

(c)

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Limitations of Ratio Analysis

1. Ratio Analysis is based on historical data only. These figures can become out of date very quickly, even by the time they are being used. They are of limited use in predicting future values.
2. Ratios do not show seasonal fluctuations within the accounting period.
3. Ratios do not take account of external factors such as the strength of the economy or the relative impact of global pandemics.
4. Figures requiring the Share Price for calculation, (PER, period to recoup and Dividend Yield) can be impacted by the mood of the markets and the irrationality of public investors. Share prices change based on levels of optimism, or panic in the market.
5. Different firms use different accounting bases making comparisons questionable. The comparison of one company to another may not be either accurate nor meaningful.
6. Financial Statements give a limited picture of a business. Many important aspects of a company are not revealed in the Financial Statements. These include
    a. The firms market position, e.g. Monopoly, dominant, niche.
    b. External changes within the market, e.g. technology, legislation or public attitudes.
    c. Staff morale and management/staff relationships. Staff turnover.

Q.6

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Accumulated fund as at 01/01/2021

Assets	€	€
Clubhouse – 6,880	365,120**[4]**	
Equipment -10,500	24,500**[4]**	
Bar stock	18,600**[1]**	
5% Investments	30,000**[2]**	
Bar debtors	400**[1]**	
Investment interest due	300**[2]**	
Levies due	500**[2]**	
		439,420
Liabilities		
Life membership	24,000**[2]**	
Bar creditors	8,300**[1]**	
Levy reserve fund	30,000**[2]**	
Wages due	900**[1]**	
Bank overdraft	13,900**[2]**	
Subs received in advance	1,500**[1]**	
Loan	30,000**[2]**	
Loan interest due W6	1,500**[2]**	
		110,100
Accumulated fund		**[1]**329,320

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Income and Expenditure account for year ended 31/12/2021

Income	€	€
Bar profit w1	55,500**[6]**	
Subscriptions w2	70,400**[7]**	
Life membership w3	3,200**[3]**	
Investment income w4	1500**[3]**	
Building society interest	720**[2]**	
Competition profit w5	9,500**[2]**	
Grant	8,000**[2]**	
		148,820
Expenditure		
Loan interest w6	900**[3]**	
Dep of equipment w7	12,450**[3]**	
Dep of Clubhouse w8	3,440**[3]**	
General expenses w9	47,700**[4]**	
		64,490
Surplus of income over expenditure		84,330[2]

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Balance Sheet of Rock Rovers as at 31/12/2021

Fixed Assets	Cost	Dep.	NBV
Clubhouse and land	**[1]**372,000	**[2]**10320	361,680
Equipment	**[1]**83,000	**[2]22,950**	60,050
	455,000	33,270	421,730
4% Building society			**[1]**36,000
5% Investments			**[1]**30,000
			487,730
Current Assets			
Closing stock		17,000**[1]**	
Prize bonds		500**[1]**	
Bar debtors		800**[1]**	
Bank		4,100**[1]**	
Interest due		720**[2]**	
		23,120	
Current liabilities			
Creditors	6,400**[1]**		
Subscriptions prepaid	2,000**[1]**	8,400	
			14,720
Total net assets			502,450
Financed by			
Accumulated fund 01/01/2021		**[1]**329,320	
Surplus income over expenditure		**[1]**84,330	
		413,650	
Life membership		**[1]**28,800	
Levy reserve fund		**[1]**60,000	
			502,450

Workings			
1.	Bar trading a/c		
	Sales	(120,500 + 800 – 400)	120,900
	Cost of sales	18,600 + 63,800 – 17,000	65,400
	Gross profit		55,500
2.	Subscriptions	109,400 +1500– 8,000 – 500 – 30,000 – 2,000	70,400
3.	Life membership	24,000 + 8,000	32,000
4.	Investment income	1,800 – 300	1,500
5.	Competition profit	28,400 – 18,900	9,500
6.	Loan interest	2400X 9/24= 900 I & E account 2400 – 900 = 1,500 Acc Fund.	900 1,500
7.	Depreciation of equipment	35000*.15X2 =10,500 (35,000 + 48,000)*.15 =12,350	33,850
8.	Depreciation of clubhouse	372,000 – 200,000 = 172,000 × 2%	3,440 per year
9.	General expenses	48,600 – 900	47,700

(d) (i) Explain why some clubs charge levies. **10**

This is a charge made by a club to its members to fund a special project such as a clubhouse extension where the club does not wish to borrow. It must be used for the purpose for which it is collected.

(ii) Why are levies treated differently to annual subscriptions in the accounts?

A Levy receipt is a capital receipt (on a once off basis or for a specific number of years) and is credited to a Levy 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 until it has been used for the purpose it was intended.
Subscriptions is a revenue income (received annually) charged to members for the use of facilities provided by the club and is entered as income in the Income and Expenditure Account.

Q.7
(a)

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Journal Entries	€	€
Debtors	5,200**[2]**	
Sales		5,200**[2]**
Equipment		5,000**[2]**
Provision for depreciation –Equipment	2,200**[2]**	
Cash	2,500**[2]**	
Profit & Loss account	300**[2]**	
Being correction of sale of equipment for cash incorrectly recorded as sale of goods on credit. **[1]**		
Purchases	13,000**[2]**	
Creditors		62,000**[2]**
Equipment	31,000**[2]**	
Suspense	18,000**[3]**	
Being correction of purchase of equipment incorrectly treated as purchases for resale. **[1]**		
Sales returns	800**[2]**	
Debtor		720**[2]**
Suspense		80**[3]**
Being correction of sales returns entered incorrectly into the customer’s account and omitted from sales returns account. **[1]**		
Drawings	1,800**[3]**	
Discount allowed	100**[3]**	
Debtors		1,900**[3]**
Being recording of private debt offset against business debt omitted from the books. **[1]**		
Purchases returns account		1,600**[3]**
Creditors	1,600**[3]**	
Purchases	1,150**[3]**	
Suspense		1,150**[3]**
Being correction of incorrect recording of purchases returns and subsequent reduction of credit **[1]**note.		

(b) Suspense a/c **6**

Suspense a/c

Creditors (ii)	18,000**[2]**	Original difference	16,770**[1]**
		Debtors (iii)	80**[2]**
	________	Purchases (v)	1,150**[1]**
	18,000		18,000

(c) Statement of corrected net profit **14**

Statement of corrected net profit		
Original net profit as per books		90,000**[1]**
Purchases returns		1,600**[2]**
Sales		5,200**[2]**
		96,800
Less		
Loss on equipment	300**[2]**	
Purchases	13,000**[2]**	
Sales Returns	800**[1]**	
Discount allowed	100**[1]**	
Purchases	1,150**[1]**	15,350
Corrected net profit		81,450**[2]**

(d)

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Balance Sheet as at 31/12/2021				
Fixed Assets		Cost	Dep	NBV
Premises		450,000**[1]**		450,000
Equipment	(180000-5,000+31,000)(17,000-2,200)	206,000**[2]**	14,800**[2]**	191,200
		656,000	14,800	641,200
Current Assets				
Stock		44,000**[1]**		
Cash		2,500**[1]**		
Debtors	(73,000-720-1,900+16,770+5,200)	92,350**[5]**	138,850	
Creditors: Amounts falling due within 1 year				
Creditors	(42,000+62,000-1,600)	102,400**[3]**		
Bank		41,000**[1]**		
			143,400	(4,550)
				636,650
Financed By				
Capital			580,000**[1]**	
Net Profit			81,450**[1]**	
			661,450	
Drawings	(23,000+1,800)		24,800**[2]**	
Capital Employed				636,650

(i)

A trial balance is prepared in order to test the accuracy of double entry book keeping before preparing final accounts. A trial balance should have the same total of debits and credits because under double entry book keeping every debit entry should have a corresponding credit entry.

(ii) Errors not revealed by the trial balance include the following:

- Errors of original entry- errors in the books of first entry
- Errors of principal- errors in the wrong class of account-entering an asset in the expense account.
- Errors of complete omission- where both debit and credit are omitted.
- Errors of commission- posting to wrong account but correct side of correct type of account.
- Compensating entries – where entries of equal value cancel each other out.
- Complete reversal of entries – where the debit entry is on the credit side and the credit is on the debit.

Q.8

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(a)(i) Cost-Volume-Profit-Analysis

Marginal costing statement at full capacity 16,000 units				
		€	€	€
Sales			3,040,000	190
Less Variable Cost				
Direct Materials		300,000 **[1]**		
Direct Labour		900,000 **[1]**		
Factory overheads		240,000 **[1]**		
Sales commission		320,000 **[1]**	1,760,000	110
Contribution			1,280,000	80
Factory overheads		360,000 **[1]**		
Administration		400,000 **[1]**		
Selling and distribution		180,000 **[1]**	940,000	
Profit			340,000	

Break Even Point

$$\frac{\text{Fixed Costs}}{\text{Contribution per unit}} \quad \frac{940{,}000}{80} = 11750 \text{ units} \quad \textbf{[10]}$$

Margin of safety

Budgeted sales – BEP 16,000 - 11,750 = 4250 units **[5]**

(ii) The Profit given changes in Selling Price, Units Sold and Fixed Costs [15]

Sales	(17,600 x €171)	3,009,600
Less Variable Costs	(17,600 x €110)	1,936,000
Contribution		1,073,600
Less Fixed Costs	940,000 + 100,000	1,040,000
Profit		33,600

(iii)

Selling price required to earn current profits at 50% capacity [16]

Fixed costs + desired profit = Contribution required
940,000 + 340,000 = 1,280,000

1,280,000/8,000 = €160 per unit

Contribution + variable cost = selling price
€160 + €110 = €270

(iv) To calculate the break even point
It is used when necessary figures are not available such as variable cost or selling price or units. **[4]**

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(b)(i)

	Output (units)		Production Overheads	
High	45,000		214,500	
Low	27,500		135,750	
Difference	17,500		78,750	
Variable Cost per Unit	=	$\frac{78,750}{17,500}$	= €4.50 per unit	**[4]**
Total Cost at 45,000 Units	=	214,500		
Less Variable Cost (45,000 x €3.50)		202,500		
Fixed Cost		12,000	**[4]**	

(ii)

	Output (units)	Other Overheads
High	45,000	179,000
Low	27,500	112,500
Difference	17,500	66,500

Variable Cost per Unit = $\frac{66,500}{17,500}$ = €3.80 per unit **[4]**

Total Cost at 45,000 Units	=	179,000	
Less Variable Cost (45,000 x €3.50)		171,000	
Fixed Cost		8,000	**[4]**

(iii)

Flexible Budget at 95% Capacity 47500 units			
		€	€
Sales			1,423,031.25**[2]**
Less Variable Cost			
Direct Materials	47,500 X €6.15	292,125**[1]**	
Direct Labour	47,500 X€ 8.50	403,750**[1]**	
Production overheads	47,500 X €4.50	213,750**[1]**	
Other Overheads	47,500 X €3.80	180,500**[1]**	1,090,125
Contribution			332,906.25**[3]**
Production overheads		12,000**[1]**	
Other Overheads		8,000**[1]**	
Administration		28,300**[1]**	48,300
Profit			284,606.25**[2]**

Q.9

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CASH BUDGET FOR 6 MONTHS JULY TODECEMBER

CASH BUDGET FOR 6 MONTHS JULY TODECEMBER							
Receipts	JULY	AUGUST	SEPT	OCT	NOV	DEC	TOTAL
	€	€	€	€	€	€	€
Cash sales	136,800**[2]**	159,600**[1]**	164,160**[1]**	165,300**[1]**	171,000**[1]**	185,250**[1]**	982,110
month 1		168,000**[1]**	196,000**[1]**	201,600**[1]**	203,000**[1]**	210,000**[1]**	978,600
month 2			168,000**[1]**	196,000**[1]**	201,600**[1]**	203,000**[1]**	768,600
Loans							
Total receipts	136,800	327,600	528,160	562,900	575,600	598,250	2,729,310
payments							
purchases month 1		141120**[2]**	164640**[1]**	169050**[1]**	171500**[1]**	176400**[1]**	822,710
purchases month 2			144,000**[1]**	168,000[1]	172,500[1]	175,000**[1]**	659,500
Wages	40,000**[2]**	40,000	40,000	40,000	40,000	40,000	240,000
Variable overheads	60,000**[1]**	70,000**[1]**	72,000**[1]**	72,500**[1]**	75,000**[1]**	81,250**[1]**	430,750
Fixed overheads	79,370**[3]**	79,370	79,370	79,370	79,370	79,370	476,220
Machinery	40,000[1]						40,000
loan repayment		2,000**[1]**	2,000	2,000	2,000	2,000	10,000
Interest	120**[1]**	110**[1]**	100**[1]**	90**[1]**	80**[1]**	70**[1]**	570
Total payments	219,490	332,600	502,110	531,010	540,450	554,090	2,679,750
Net Cash	(82,690)[1]	(5,000)[1]	26,050[1]	31,890[1]	35,150[1]	44,160[1]	49,560
Opening Cash	0	(58,690)[1]	(63,690)	(37,640)	(5,750)	29,400	
Loan	24,000**[1]**						24,000
Closing cash	(58,690)	(63,690)	(37,640)	(5,750)	29,400	73,560**[4]**	73,560

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(b)

(B) Budgeted profit and loss account for 6 months ended 31/12/22			
		€	€
Sales (42,400 x 80)			3,446,000 **[1]**
Less Cost of sales			
Purchases		2,059,000**[1]**	
Labour (40,000 x 6)		240,000 **[1]**	
Variable overheads		430,750 **[1]**	
Fixed overheads (79,370 x 6)		476,220 **[1]**	
			3,205,970
Gross Profit			240,030
Dep - Machinery		3,780**[1]**	
Discount allowed (3446000 x .03 x .05)		51,690**[3]**	55,470
			184,560
Discount received (1,679,000 x 0.5x 0.02)			16,790**[3]**
			201,350
Less: interest			570**[2]**
Net Profit			200,780**[3]**

(c) The principal budget factor is that aspect of the business that limits or constraints the activity of the firm. Sales volume is the most common principal budget factor and is usually the starting point in the budgeting process.

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Other examples include:

- The output capacity of the machinery.
- The amount of the raw-materials available.
- The availability of skilled labour.
- The ability to dispose of by-product.
- The carbon emission of the firm may become important limiting factors in the future

I would advise the business to arrange an overdraft facility, to a maximum of €63,690 for the months where they will have a deficit .
I would advise them to hire rather than buy the equipment until cashflow builds up.
I would advise the firm to attempt to encourage more cash sales, greater than 30%, and debtors to pay within 1 month to increase cashflow in July and August.
I would examine my fixed and variable overheads along with wages to see if they can be reduced further.