Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION

ACCOUNTING - HIGHER LEVEL

(300 marks)

TIME ALLOWED 3 HOURS

This paper is divided into 3 Sections:

Section 1: **Financial Accounting** (120 marks).
This section has four questions (Numbers 1 - 4). The first question **(A or B)** carries 120 marks and the remaining three questions carry 60 marks each. Candidates should answer either **QUESTION 1 (A or B) only** OR answer any **TWO** of the remaining three questions in this section.

Section 2: **Financial Accounting** (100 marks).
This section has three questions (Numbers 5 - 7). Each question carries 100 marks. Candidates should answer **ONE** of these 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 (A or B)**
OR
any **TWO** other questions

1. (A) Company Final Accounts

Nolan Ltd has an authorised capital of €1,400,000 divided into 900,000 ordinary shares at €1 each and 500,000 8% preference shares at €1 each.
The following trial balance was extracted from its books on 31/12/2021:

	€	€
Premises at cost	850,000	
Accumulated depreciation on premises		41,000
Delivery vans at cost	120,000	
Accumulated depreciation on delivery vans		24,200
Patents (incorporating 3 months investment income)	60,000	
6% Investments (acquired on 01/04/2021)	200,000	
Stock 01/01/2021	48,000	
Purchases and sales	460,000	898,000
Directors' fees (incorporating suspense)	65,000	
Salaries and general expenses	211,000	
Debtors and creditors	61,000	54,000
Advertising	30,000	
Provision for bad debts		3,800
Dividends paid	47,000	
Profit and loss balance 01/01/2021	52,000	
8% Debentures (including €100,000 issued on 30/06/2021)		400,000
Bank	17,000	
Issued share capital - ordinary shares		500,000
- 8% preference shares		300,000
	2,221,000	2,221,000

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

(i) Stock at cost on 31/12/2021 was €75,000. This includes stock that cost €7,000 but which now only has a net realisable value of 60% of its original cost.

(ii) Goods were sent to a customer on a 'Sale or Return' basis on 31/12/2021. These goods were recorded in the books as a credit sale. The recommended retail selling price of these goods was €4,800, which is cost plus 20%.

(iii) Patents are to be written off over 8 years commencing in 2021.

(iv) During the year €12,000 in stock and €28,000 of buildings were destroyed by fire. The insurers agreed to pay compensation of €38,000. A new storeroom was built by the company's own employees. The cost of their labour was €30,000 which was included in the salaries and general expenses figure. The materials, costing €35,000 were taken from existing stock. No record has yet been made in the books for the fire or new storeroom and no compensation has yet been received.

(v) The suspense figure arises as a result of the incorrect treatment of discount received €800 entered only in the creditor's account and sales returns of €300 entered only in the debtor's account.

(vi) The advertising payment is for an 18 month campaign which began on 01/10/2021.

(vii) The figure for bank in the trial balance has been taken from the company's own records. However the bank statement dated 31/12/2021 has arrived showing a balance of €24,880.
A comparison of the bank account and the bank statement revealed the following discrepancies:
1. Investment income of €3,000 had been paid directly into the bank.
2. A credit transfer for €2,000 had been received on 31/12/2021 in respect of a debtor who has recently been declared bankrupt. This represents a first and final payment of 40c in the €1 owed.
3. A cheque issued to a creditor for €740 had been entered in the books (cash book and ledger) as €470.
4. A cheque of €3,150 issued to a creditor had not been presented for payment by 31/12/2021.

(viii) Provision should be made for the following:
1. Premises to be depreciated by 2% of cost per annum.
2. Delivery vans to be depreciated by 30% of the net book value.
3. Debenture interest due and investment income due.

Required:

(a) Prepare a trading and profit and loss account for the year ended 31/12/2021. (75)

(b) Prepare a balance sheet as at 31/12/2021. (45)

(120 marks)

1. (B) Company Final Accounts including a Manufacturing Account

Texas Ltd has an authorised capital of €1,500,000 divided into 1,000,000 ordinary shares at €1 each and 500,000 5% preference shares at €1 each.
The following trial balance was extracted from the books on 31/12/2021:

	€	€
Plant and machinery (cost €380,000)	305,000	
Factory buildings (cost €930,000)	880,000	
Hire of special equipment	52,800	
General factory overheads (including suspense)	108,800	
Stocks on hand 01/01/2021		
Finished goods	39,800	
Raw materials	42,600	
Work in progress	49,200	
Direct factory wages	150,000	
Purchase of raw materials	680,800	
Royalty payments	38,600	
Sale of scrap materials		6,700
Selling expenses	49,000	
Administration expenses	68,200	
Sales		1,490,000
Discount (net)		6,500
Rent		22,000
4% Investments acquired on 01/04/2021	260,000	
Profit and loss balance 01/01/2021		82,000
PAYE, PRSI & USC		21,600
6% Debentures (including €50,000 issued on 01/04/2021)		290,000
Dividends paid	33,500	
Bank		73,600
Debtors and creditors	74,000	59,900
Issued share capital - ordinary shares		550,000
- 5% preference shares		230,000
	2,832,300	2,832,300

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

(i) Stocks on hand at 31/12/2021:

	Finished goods	€58,200
	Raw materials	€37,600
	Work in progress	€43,800

(ii) It was discovered that finished goods had been sent to a customer on 31/12/2021 on a 'sale or return' basis. These goods had been recorded as a credit sale of €20,500 which is a mark-up on cost of 25%.

(iii) The suspense figure arises as a result of discount allowed €500 entered only in the discount account and credit purchases of raw materials €8,000 entered on the incorrect side of the creditor account.

(iv) During 2021 Texas Ltd built an extension to the warehouse. The work was carried out by the firm's own employees. The cost of their labour €32,000 was included in factory wages. The materials, costing €28,000 were taken from stocks. No entry had been made in the books in respect of this extension.

(v) Included in the figure for sale of scrap materials is €4,500 received from the sale of an old machine on 30/06/2021. This machine had cost €20,000 on 01/04/2016.

(vi) Provision should be made for depreciation as follows:

Plant and machinery at the annual rate of 15% of cost from the date of purchase to the date of sale.

Buildings at 2% of the cost at 31/12/2021. Depreciation on buildings is to be allocated 75% to factory and the remainder to office administration.

(vii) The figure for bank in the trial balance has been taken from the firm's records. However, a bank statement dated 31/12/2021 shows an overdraft of €66,000. A comparison of the bank account and the bank statement revealed the following discrepancies:

1. A cheque for €900 had been lodged directly into the firm's bank account on behalf of a debtor in respect of a debt previously written off. This represented 60% of the original debt and the debtor has undertaken to repay the remainder in January 2022.
2. A cheque for €8,500 issued to a supplier had been entered in the books (cash book and ledger) as €5,800.
3. A cheque for €9,400 issued to a supplier had not been presented for payment by 31/12/2021.

(viii) Provision should be made for the following:

1. Investment income due and debenture interest due.
2. The creation of a provision for bad debts equal to 6% of debtors on 31/12/2021.
3. The Sales Director should be paid a bonus commission of 2% on all sales greater than €1,000,000, increasing to 4% on any sales above €1,400,000.

Required:

(a) Prepare a manufacturing, trading and profit and loss account for the year ended 31/12/2021. (75)

(b) Prepare a balance sheet as at 31/12/2021. (45)

(120 marks)

2. Depreciation of Fixed Assets

Maple Transport Ltd prepares its final accounts to the 31 December each year. It is company policy to depreciate its vehicles at the rate of **20% of cost per annum** calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a provision for depreciation account.

On 01/01/2020 Maple Transport Ltd owned the following vehicles:

No. 1 purchased on 01/01/2017 for €60,000.
No. 2 purchased on 01/10/2018 for €72,000.
No. 3 purchased on 01/01/2019 for €78,000.

On 01/07/2020 vehicle no. 1 was traded in for €8,000 against a new vehicle costing €108,000. Vehicle no. 1 had a refrigeration unit fitted on 01/01/2018 costing €24,000. This refrigeration unit was depreciated at the rate of 30% of cost for the first two years and thereafter at a rate of 20% of cost per annum.

On 01/05/2021 vehicle no. 3 was crashed and traded in against a new vehicle costing €96,000. The company received compensation to the value of €20,000 and the cheque paid for the new vehicle was €75,000.

You are required to show, **with workings**, **for each of the years 2020 and 2021**:

(a) The vehicles account. (6)

(b) The provision for depreciation on vehicles account. (32)

(c) The vehicles disposal account. (14)

(d) (i) Explain why a company charges depreciation in calculating profit.

(ii) List the factors that should be considered when determining the depreciation policy for a particular asset. (8)

(60 marks)

3. Creditors Control Account

The creditors' ledger control account of G. Moloney showed the following balances: €46,960 cr and €590 dr on 31/12/2021. These figures did not agree with the schedule (list) of creditors' balances extracted on the same date. An examination of the books revealed the following:

(i) Moloney had returned goods costing €450 to a supplier and entered this correctly into the books before receiving the relevant credit note. When the credit note arrived from the supplier it showed a 10% restocking charge and the only entry made for this charge was to credit the creditor's account with the value of the credit note. No other entry was made in the books for this reduction.

(ii) A creditor had charged Moloney interest amounting to €90 on an overdue account. The only entry in the books for this interest had been €19 debited to the creditor's account. After negotiations the interest charge was reduced to €40 but no entry had been made in the accounts for this.

(iii) Discount disallowed by a supplier of €80 had been omitted from the books.

(iv) A credit note was received from Ethan Hunt, a supplier, for €120. The only entry made in the books was €220 credited to the supplier's account.

(v) Cash purchases by Moloney of €450 had been debited to a supplier's account.

(vi) Moloney had received an invoice from a supplier for €960. This had been entered in the appropriate day book as €690. When posting from this book to the ledger, no entry had been made in the personal account.

Required:

(a) Prepare the adjusted creditors ledger control account. (24)

(b) Prepare the adjusted schedule of creditors showing the original balance. (28)

(c) (i) Explain what is meant by the opening debit balance in the creditors control account.

(ii) Give **two** reasons why such a balance might arise. (8)

(60 marks)

4. Published Accounts

Beech plc has an authorised capital of €1,500,000 divided into 900,000 ordinary shares at €1 each and 600,000 6% preference shares at €1 each.
The following trial balance was extracted from its books on 31/12/2021:

	€	€
Issued capital		
360,000 ordinary shares at €1 each		360,000
100,000 6% preference shares at €1 each		100,000
Patents 01/01/2021	20,000	
Land and buildings	800,000	
Delivery vans at cost	180,000	
Delivery vans – accumulated depreciation on 01/01/2021		70,000
5% Investments	120,000	
Debtors and creditors	47,000	68,000
Purchases and sales	605,000	1,200,000
Stock 01/01/2021	65,000	
Directors' fees	60,000	
Salaries and general expenses	258,000	
Advertising	76,000	
Profit on sale of land		250,000
Rental Income		25,000
Dividends paid	24,000	
Profit and loss account 01/01/2021	26,000	
8% Debentures (2026) including €40,000 debentures issued on 01/10/2021		160,000
Bank		33,000
VAT		15,000
	2,281,000	2,281,000

The following information is also relevant:

(i) Stock on 31/12/2021 was €90,000.

(ii) The patent was acquired on 01/01/2017 for €40,000. It is being amortised over 8 years in equal instalments. The amortisation is to be included in the cost of sales.

(iii) Included in administrative expenses is the receipt of €22,000 for patent royalties.

(iv) During the year land, which had cost €100,000, was sold for €350,000. The remaining land had cost €150,000.

(v) Depreciation is to be provided as follows:

Delivery vans at the rate of 20% of cost per annum straight line and buildings at the rate of 2% of cost per annum straight line. There was no purchase or sale of buildings during the year.

(vi) Provide for debenture interest due, investment income due, auditors' fees €6,500, sales commission of 2% on sales in excess of €1,000,000 and corporation tax €62,000.

Required:

(a) Prepare the published profit and loss account for the year ended 31/12/2021 in accordance with the Companies Act and appropriate accounting standards showing the following notes:

1. Accounting policy note for tangible fixed assets and stock.
2. Operating profit.
3. Interest payable.
4. Dividends.
5. Tangible fixed assets.

(52)

(b) (i) Explain the purpose of an auditor's report.

(ii) State three items of information that must be included in a directors' report. (8)

(60 marks)

SECTION 2 (100 marks)
Answer any **ONE** question

5. Interpretation of Accounts

The following figures have been taken from the final accounts of Ash Ltd, a company in the **food processing sector** for the year ended 31/12/2021. The company has an authorised capital of €600,000 made up of 400,000 ordinary shares at €1 each and 200,000 7% preference shares at €1 each. Ash Ltd has already issued 350,000 ordinary shares and 150,000 7% preference shares.

Trading and Profit and Loss Account for year ended 31/12/2021	
	€
Sales	1,520,000
Cost of sales	(790,000)
Operating expenses for year	(650,000)
Interest for year	(30,000)
Net profit for year	50,000
Dividends paid	(45,000)
Retained profit	5,000
Profit and loss balance 01/01/2021	75,000
Profit and loss balance 31/12/2021	80,000

Ratios and information for year ended 31/12/2020

Return on capital employed	10%
Return on shareholders' funds	12%
Gearing	45%
Interest cover	8 times
Market value of one ord. share	€1.90
Earnings per ordinary share	30c
Dividend per ordinary share	12c
Acid test ratio	0.95:1
Dividend yield	6.32%

Balance Sheet as at 31/12/2021			
Fixed Assets	**€**	**€**	**€**
Intangible assets			20,000
Tangible assets			730,000
Investments (market value 31/12/2021 €60,000)			80,000
			830,000
Current Assets (including stock €50,000)		150,000	
Less Creditors: amounts falling due within 1 year			
Trade creditors	(55,000)		
Bank	(45,000)	(100,000)	50,000
			880,000
Financed by			
10% Debentures (2023 secured)			300,000
Capital and Reserves			
Ordinary shares @ €1 each		350,000	
7% Preference shares @ €1 each		150,000	
Profit and loss balance		80,000	580,000
			880,000

Market value of one ordinary share on 31/12/2021 is **€1.60.**

(a) **You are required to calculate the following for 2021**
(where appropriate calculations should be made to **two** decimal places):

(i) The opening stock if the rate of stock turnover is 8 based on average stock.

(ii) Interest cover.

(iii) Dividend cover.

(iv) Return on shareholders' funds.

(v) Price earnings ratio. (50)

(b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of the company. Use relevant ratios and other information to support your answer. (40)

(c) Outline the limitations of ratio analysis that must be considered when using ratios. (10)

(100 marks)

6. Club Accounts

Included in the assets and liabilities of the Rock Rovers Football Club on 01/01/2021 were the following:
Clubhouse and land (at cost) €372,000; equipment (at cost) €35,000; life membership €24,000; bar stock €18,600; 5% investments €30,000; bar debtors €400; bar creditors €8,300; levy reserve fund €30,000; investment interest due €300; wages due €900; subscriptions received in advance €1,500.

All fixed assets have 2 years accumulated depreciation on 01/01/2021.

The club treasurer has provided the following account of the club's activities during the year ended 31/12/2021.

Receipts and Payments Account for year ended 31/12/2021

Receipts	**€**	**Payments**	**€**
Subscriptions	109,400	Balance 01/01/2021	13,900
Bar receipts	120,500	Bar purchases	65,700
Annual grant	8,000	Competition expenses	18,900
Interest on 5% investments	1,800	General expenses	48,600
Competition receipts	28,400	Prize bonds	500
		Purchase of equipment	48,000
		Repayment of €30,000 Loan on 30/09/2021 together with interest for two years	32,400
		Transfer to 4% fixed interest building society account on 30/06/2021	36,000
		Balance 31/12/2021	4,100
	268,100		268,100

You are given the following additional information and instructions:

(i) Bar stock 31/12/2021 was €17,000.

(ii) Bar debtors and bar creditors on 31/12/2021 were €800 and €6,400 respectively.

(iii) Equipment owned on 31/12/2021 is to be depreciated at the rate of 15% of cost per annum.

(iv) The clubhouse and land includes land that cost €200,000. Depreciation is to be provided on the clubhouse at a rate of 2% of cost.

(v) Subscriptions include:

1. 2 new life memberships of €4,000 each.
2. Levy for 2020 of €100 each from 5 members.
3. Levy for 2021 of €100 each from 300 members.
4. Subscriptions for 2022 amount to €2,000.

(vi) Life membership is to be credited to income over a 10 year period commencing in 2021.

Required:

(a) Show the club's accumulated fund on 01/01/2021. (30)

(b) Show the club's income and expenditure account for the year ended 31/12/2021. (40)

(c) Show the club's balance sheet as at 31/12/2021. (20)

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

(ii) Why are levies treated differently to annual subscriptions in the accounts? (10)

(100 marks)

7. Correction of Errors and Suspense Account

The trial balance of J. Jones, a baker, failed to agree on 31/12/2021. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2021			
Fixed Assets	**€**	**€**	**€**
	Cost	**Dep to date**	**NBV**
Premises	450,000	-	450,000
Equipment	180,000	17,000	163,000
	630,000	17,000	613,000
Current Assets			
Stock	44,000		
Debtors (including suspense)	73,000	117,000	
Less Creditors: amounts falling due within 1 year			
Creditors	42,000		
Bank	41,000	83,000	34,000
			647,000
Financed by:			
Capital		580,000	
Add: net profit		90,000	
		670,000	
Less: drawings		(23,000)	647,000
			647,000

On checking the books, the following errors and omissions were discovered:

(i) Equipment which cost €5,000 and with a book value of €2,800 was sold for cash €2,500. This had been entered as €5,200 on the debit side of the sales account and on the credit side of the debtors account. These were the only entries made in the books.

(ii) A new oven costing €31,000 purchased on credit from a supplier - BakeEquip Ltd, had been entered on the incorrect side of the supplier's account for the correct amount and credited to the purchases account as €13,000. These were the only entries made in the books in respect of this transaction.

(iii) Goods previously sold to Savers Supermarket Ltd, for €800 had been returned but entered as €80 on the credit side of the customer's account with no other entry being made in the accounts.

(iv) A private debt for €1,800, owed by Jones, had been offset in full against a business debt of €1,900, owed to the firm for sales. No entry had been made in the books in respect of this offset.

(v) Jones had returned goods, previously purchased on credit from a supplier for €6,400, and had entered this transaction in the relevant ledger accounts incorrectly as €4,600. Subsequently the supplier disallowed €200 of the returns when they realised that the returned stock had gone beyond its 'use by' date. The only entry for this was to credit the purchases account with €1,150.

Required:

(a) Journalise the necessary corrections. (54)

(b) Show Jones' suspense account. (6)

(c) Prepare a statement showing the corrected net profit for Jones. (14)

(d) Prepare the corrected balance sheet of Jones. (20)

(e) (i) What is the purpose of preparing a trial balance?

(ii) State and explain two types of errors not revealed by the trial balance. (6)

(100 marks)

SECTION 3 (80 marks)
Answer any **ONE** question

8. **Marginal Costing**

(a) Willow Ltd manufactures garden furniture. It produces a single product. The company's profit and loss account for the year ended 31/12/2021, during which 16,000 units were produced and sold, was as follows:

	€	€
Sales (16,000 units)		3,040,000
Direct labour	900,000	
Direct materials	300,000	
Factory overheads	600,000	
Administration expenses	400,000	
Selling and distribution expenses	500,000	
		2,700,000
Net profit		340,000

The direct materials, direct labour and 40% of factory overheads are variable costs.

Apart from sales commission of €20 per unit, selling and distribution expenses are fixed.

Administration costs are fixed.

Required:

(i) Calculate the break-even point and margin of safety in units.

(ii) Calculate the profit the company would make if it reduced its selling price by 10%, increased advertising by €100,000 and increased the sales volume by 10%, with all other cost levels and percentages remaining unchanged.

(iii) Calculate the selling price that would earn current profits from the sales if the firm had to operate at 50% capacity and all other costs remaining unchanged.

(iv) For what purpose is the contribution sales ratio regularly used?

(b) Mixed costs can be separated into their fixed and variable parts by using records from previous periods. Hazel Ltd manufactures a component for the pharmaceutical industry. The following flexible budgets have already been prepared for 55%, 75% and 90% of the plant's capacity:

Output levels	**55%**	**75%**	**90%**
Units	27,500	37,500	45,000
Costs	**€**	**€**	**€**
Direct materials	169,125	230,625	276,750
Direct wages	233,750	318,750	382,500
Production overheads	135,750	180,750	214,500
Other overhead costs	112,500	150,500	179,000
Administration overheads	28,300	28,300	28,300
	679,425	908,925	1,081,050

Profit is budgeted to be 20% of sales. All units produced are sold.

Required:

(i) Separate production overheads into fixed and variable elements.

(ii) Separate other overhead costs into fixed and variable elements.

(iii) Prepare a flexible budget for 95% activity level using marginal costing principles, and show the contribution.

(80 marks)

9. Cash Budgeting

Oak Ltd is preparing to set up business on 01/07/2022 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	**€**	**€**	**€**	**€**	**€**	**€**
Sales	480,000	560,000	576,000	580,000	600,000	650,000	3,446,000
Purchases	288,000	336,000	345,000	350,000	360,000	380,000	2,059,000

(i) The expected selling price is €80 per unit.

(ii) The cash collection pattern from sales/debtors is expected to be:

Cash Customers 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 70% of sales revenue will be from credit customers. These debtors will pay their bills 50% in the month after sale and the remainder in the second month after sale.

(iii) The cash payments pattern for purchases is expected to be:

Credit Suppliers The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

Expected Costs Wages €40,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) will be €80,000 per month payable as incurred.

Capital Costs Machinery costing €40,000 will be purchased on 01/07/2022. The machinery will have an estimated useful life of 5 years and a residual value of €2,200.
This will be partly financed by means of a loan of €24,000 at 6% per annum. The capital sum is to be repaid in 12 equal monthly instalments commencing on 01/08/2022.
The interest for each month is to be paid on the last day of that month based on the amount of the loan outstanding at that date, commencing on 31/07/2022.

Required:

(a) Prepare a cash budget for the six months July to December 2022.

(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2022.

(c) (i) Explain what is meant by the term 'principal budget factor'. Give **two** examples, other than sales.

(ii) On the basis of the cash budget you have prepared what advice would you give Oak Ltd?

(80 marks)

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