Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2010

ACCOUNTING - HIGHER LEVEL

(400 marks)

MONDAY, 21st JUNE – AFTERNOON, 2.00 to 5.00

This paper is divided into 3 Sections:

Section 1: Financial Accounting (120 marks).
This section has 4 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 else attempt any **TWO** of the remaining three questions in this section.

Section 2: Financial Accounting (200 marks).
This section has 3 questions (Numbers 5 – 7). Each question carries 100 marks. Candidates should answer any **TWO** questions.

Section 3: Management Accounting (80 marks).
This section has 2 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: however, 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 Nora O'Connell on 31/12/2009:

	€	€
Buildings (Cost €620,000)	515,000	
Delivery Vans (Cost €90,000)	80,000	
4% Investments (01/07/2009)	120,000	
Patents	60,400	
6% Fixed Mortgage (including increase of €80,000 received on 01/04/2009)		180,000
Debtors and Creditors	50,000	120,000
Purchases and Sales	465,200	659,650
Stock 01/01/2009	63,200	
Commission	5,550	
Salaries and General Expenses (incorporating Suspense)	75,000	
Provision for Bad Debts		1,800
Discount (Net)	1,600	
Rent	8,000	
Mortgage Interest paid for the first three months	1,400	
Advertising	2,400	
VAT		4,600
Bank		13,300
PAYE and PRSI		5,400
Drawings	32,000	
Capital		495,000
	1,479,750	1,479,750

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

(i) Stock at 31/12/2009 at cost was €75,400. This figure includes damaged stock which cost €8,200 but which now has a net realisable value of €3,400.

(ii) Patents, which incorporate three months investment income received, are to be written off over a five year period commencing in 2009.

(iii) Provide for depreciation on vans at the annual rate of 12½% of cost from the date of purchase to the date of sale. NOTE: On 31/03/2009 a van, which cost €24,000 on 30/09/2006, was traded in against a new van which cost €48,000. An allowance of €12,000 was given on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.

(iv) The suspense arises as a result of the incorrect figure for mortgage interest (although the correct entry had been made in the bank account) and from €1,000 paid towards PAYE and PRSI entered only in the bank account.

(v) Goods with a retail selling price of €8,400 were returned to a supplier. The selling price was cost plus 20%. The supplier issued a credit note showing a restocking charge of 10% of the cost price. No entry has been made in respect of this restocking charge.

(vi) Provision to be made for mortgage interest due. 10% of the mortgage interest for the year refers to the private section of the building.

(vii) Provide for depreciation on buildings at a rate of 3% of cost per annum. It was decided to revalue the buildings at €850,000 on 31/12/2009.

(viii) The advertising payment is towards a 24 month campaign which began on 01/10/2009.

(ix) A cheque for €400 had been received on 31/12/2009 in respect of a debt of €900 previously written off as bad. The debtor has agreed to pay the remainder within one month. No entry was made in the books to record this transaction.

You are required to prepare a:

(a) Trading and Profit and Loss Account for the year ended 31/12/2009. (75)

(b) Balance Sheet as at 31/12/2009. (45)

(120 marks)

2. Cash Flow Statement

The following are the Balance Sheets of Norris plc as at 31/12/2008 and 31/12/2009 together with an abridged Profit and Loss account for the year ended 31/12/2009.

Abridged Profit and Loss Account for the year ended 31/12/2009

	€
Operating Profit	179,000
Interest for the year	(18,000)
Profit before taxation	161,000
Taxation for the year	(43,000)
Profit after taxation	118,000
Dividends paid	(64,000)
Retained profits for the year	54,000
Retained profits on 01/01/2009	182,000
Retained profits on 31/12/2009	236,000

Balance Sheet as at	**31/12/2009**		**31/12/2008**	
Fixed Assets	**€**	**€**	**€**	**€**
Land and Buildings at cost	800,000		725,000	
Less accumulated depreciation	(60,000)	740,000	(50,000)	675,000
Machinery at cost	380,000		450,000	
Less accumulated depreciation	(200,000)	180,000	(175,000)	275,000
		920,000		950,000
Financial Assets				
Quoted Investments		60,000		25,000
Current Assets				
Stock	212,000		194,000	
Debtors	188,000		180,000	
Government Securities	15,000		–	
Bank	–		6,000	
Cash	3,000		2,000	
	418,000		382,000	
Less Creditors: amounts falling due within 1 year				
Trade creditors	280,000		255,000	
Interest due	5,000		–	
Taxation	45,000		40,000	
Bank	9,000		–	
	(339,000)		(295,000)	
Net Current Assets		79,000		87,000
		1,059,000		1,062,000
Financed by				
Creditors: amounts falling due after more than 1 year				
10% Debentures		140,000		220,000
Capital and Reserves				
Ordinary Shares at €1 each	680,000		660,000	
Share Premium	3,000		–	
Profit and loss account	236,000	919,000	182,000	842,000
		1,059,000		1,062,000

The following information is also available:

1. There were no disposals of buildings during the year but new buildings were acquired.
2. There were no purchases of machinery during the year. Machinery was disposed of for €30,000.
3. Depreciation charged for the year on Machinery in arriving at the operating profit was €55,000.

You are required to:

(a) Prepare the Cash Flow Statement of Norris plc for the year ended 31/12/2009 including Reconciliation Statements. (48)

(b) (i) Outline the benefits of preparing a Cash Flow Statement.
(ii) Distinguish between a cash expense and a non cash expense. (12)

(60 marks)

3. **Depreciation of Fixed Assets**

Trans Haulage Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of **20% of *Book Value*** **(reducing balance)** per annum, calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2008, Trans Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2004 for €40,000
No. 2 purchased on 01/01/2005 for €50,000
No. 3 purchased on 01/01/2006 for €60,000

On 01/08/2008, Vehicle No. 1 was traded in for €12,000 against a new vehicle costing €66,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2007 costing €16,000. This refrigeration unit was depreciated at the rate of 40% for the first year and thereafter at the same rate as Vehicle No. 1. On 01/05/2009, Vehicle No. 3 was crashed and traded in against a new vehicle costing €72,000. The company received compensation from the insurance company to the value of €20,000 and the cheque paid for the new vehicle was €61,000.

You are required to show, with workings, for each of the two years 2008 and 2009:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Explain what is meant by depreciation.
(ii) Why does a company charge depreciation in calculating profit? (8)

(60 marks)

4. **Creditors Control Account**

The Creditors Ledger Control Account of P. Whelan showed the following balances - €54,225 cr and €650 dr on 31/12/2009. These figures did not agree with the Schedule (List) of Creditors' Balances extracted from the creditors ledger on the same date. An examination of the books revealed the following:

(i) A credit note was received from M. Jones for €215. The only entry made in the books was €251 credited to the creditors account.
(ii) An invoice received from K. Kelly showing the purchase of goods for €1,500 less trade discount 10% had been entered correctly in the appropriate day book but had not been posted to the personal account.
(iii) A creditor had charged Whelan interest of €95 on an overdue account. The only entry made in Whelan's books for this interest had been €35 debited to the creditors account. After a complaint by Whelan this charge had been reduced to €55 but this reduction had not been reflected in the books.
(iv) Discount disallowed by a supplier of €52 had been treated as discount received in the books.
(v) Cash purchases by Whelan of €900 had been debited to a suppliers account.
(vi) Whelan had returned goods €840 to a supplier and entered this correctly in the books. A credit note arrived showing a deduction of 10% as a restocking charge. The total amount of this credit note was credited to the creditors account. No other entry was made in the books.

You are required to:

(a) Prepare the Adjusted Creditors Ledger Control Account. (24)
(b) Prepare the Adjusted Schedule of Creditors showing the original balance. (28)
(c) Give reasons why the balance in the Creditors' Control Account may not agree with the balance in the Schedule of Creditors. (8)

(60 marks)

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

5. **Interpretation of Accounts**

The following figures have been extracted from the final accounts of Hebe plc, a manufacturer in the dairy industry. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 10% preference shares at €1 each. Hebe plc, has already issued 400,000 ordinary shares and 50,000 of the 10% preference shares.

Trading and Profit and Loss account for year ended 31/12/2009

		€
Sales		960,000
Opening stock	60,000	
Closing stock	65,000	
Costs of goods sold		(725,000)
Operating expenses for year		(140,000)
Interest for year		(30,000)
Net Profit for year		65,000
Dividends paid		(50,000)
Retained Profit		15,000
Profit and Loss Balance 01/01/2009		40,000 cr
Profit and Loss Balance 31/12/2009		55,000

Ratios and information for year ended 31/12/2008

Earnings per Ordinary Share	21c
Dividend per Ordinary Share	15c
Interest cover	4.7 times
Quick Ratio	1:1
Market Value of one Ordinary Share	€1.80
Return on Capital Employed	13%
Gearing	37%
Dividend cover	1.4 times
Dividend yield	8.3%

Balance Sheet as at 31/12/2009

			€
Intangible Assets			180,000
Tangible Assets			520,000
Investments (market value €95,000)			120,000
			820,000
Current Assets (Closing Stock €65,000 and Debtors 45,000)		110,000	
Trade Creditors	77,000		
Bank	48,000	(125,000)	(15,000)
			805,000
8% Debentures (2014/2015)			300,000
Issued Capital			
Ordinary Shares @ €1 each		400,000	
10% Preference Shares @ €1 each		50,000	
Profit and Loss Balance		55,000	505,000
			805,000

You are required to calculate the following for 2009:

(a) (i) The Interest Cover
(ii) The Cash Purchases if the average period of credit received from trade creditors is 2 months.
(iii) The Ordinary Dividend Cover
(iv) The Market Price if P/E is 10
(v) The Dividend Yield. (45)

(b) Indicate whether the Debenture Holders 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) A friend of yours has been given the opportunity to buy ordinary shares in Hebe plc but before doing so asks your opinion. What advice would you give? Use ratios, percentages and any other information from the above to support your conclusions. (15)

(100 marks)

6. Service Firm

The following were included in the assets and liabilities of the Elms Nursing Home Ltd, on 01/01/2009: Buildings and Grounds €550,000; Equipment €45,000; Mini Bus at cost €50,000; Stock in shop €3,300; Stock of Heating oil €1,600; Creditors for supplies to Nursing Home €1,000; 5% Investments €30,000; Contract cleaning prepaid €200; Clients deposits paid in advance €4,000; Authorised Capital €450,000; Issued Capital €320,000.

All fixed assets have 3 years accumulated depreciation on 01/01/2009

The following is a Receipts and Payments Account for the year ended 31/12/2009:

Receipts and Payments Account of Elms Nursing Home Ltd for year ended 31/12/2009

	€		€
Balance at Bank 01/01/2009	8,250	Laundry	2,000
Clients fees	340,000	Telephone	1,600
Investment Income	1,000	Wages & Salaries	85,500
Shop receipts	40,000	Repayment of €40,000 loan on 01/05/2009	
Balance c/d	75,450	with 18 months Interest.	48,100
		Equipment	15,000
		New extension	200,000
		New Mini Bus	35,000
		Contract cleaning	3,500
		Light and heat	3,100
		Insurance	6,400
		Purchases – shop	28,000
		Purchases – supplies	35,900
		Dishonoured cheque – fees	600
	464,700		464,700

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

(i) Closing stocks at 31/12/2009: Shop €1,500, Heating oil €300.
(ii) Cleaning is done under contract payable monthly in advance and includes a payment of €400 for January 2010.
(iii) Clients' fees include fees for 2010 of €5,000. Clients' fees in arrears at 31/12/2009 €500.
(iv) The dishonoured cheque was not subsequently recovered, and was written off as a bad debt.
(v) Wages and Salaries include €18,000 per annum paid to the secretary, who also runs the shop. It is estimated that 40% of this salary, €250 of the light and heat, €800 of the insurance and €350 of the telephone is attributable to the shop.
(vi) Creditors for supplies to the Nursing Home at 31/12/2009 are €1,800.
(vii) Electricity due on 31/12/2009 €320.
(viii) Depreciation to be provided as follows:
Buildings 2% of cost for the full year
Equipment 15% of cost per annum
Mini bus at 20% of cost per annum from date of purchase to date of sale
The mini bus held on 01/01/2009 was purchased on 01/01/2006 and was traded in on 01/07/2009 against a new mini bus. The trade in allowance was €7,000 against a new bus valued at €42,000.
(ix) On 31/12/2009 the Elms Nursing Home Ltd decided to re-value buildings at €900,000

Required:

(a) Calculate the company's reserves (profit and loss balance) on 01/01/2009 (18)
(b) Calculate the profit/loss from the shop for the year ended 31/12/2009 (10)
(c) Prepare the Profit and Loss Account of Elms Nursing Home Ltd for the year ended 31/12/2009 (36)
(d) Prepare the Balance Sheet of Elms Nursing Home Ltd on 31/12/2009 (30)
(e) The management of the nursing home is considering an increase of 10% in the clients' fees. What advice would you give? Explain your answer. (6)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of C. McCarthy, a motor dealer, failed to agree on 31/12/2009. The difference was entered in a suspense account and the following Balance Sheet was prepared:

Balance Sheet as at 31/12/2009

	€	€	€
Fixed Assets			
Premises		600,000	
Equipment		30,000	
Motor Vehicles		60,000	690,000
Current Assets			
Stock (including suspense)		182,400	
Debtors		38,200	
Cash		1,000	
		221,600	
Less: Creditors: amounts falling due within 1 year			
Creditors	56,000		
Bank	31,000	(87,000)	134,600
			824,600
Financed by:			
Capital		750,000	
Net profit		81,200	
		831,200	
Drawings		(6,600)	824,600
			824,600

On checking the books the following errors were discovered:

(i) McCarthy sent a cheque for €620 in full settlement of a business debt of €660 and this was recorded correctly in the books. However, no entry had been made in the books of the subsequent dishonouring of this cheque and the payment on account of €300 cash by McCarthy.

(ii) McCarthy had returned a motor car previously purchased on credit for €15,600 from a supplier. Mc Carthy entered this transaction as €16,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a transport charge of €600 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.

(iii) McCarthy won a motor vehicle valued at €30,000 in a draw. McCarthy gave this vehicle to the business and took an old vehicle from the business valued at €22,500 which was to be used for private purposes. The only entry made in the firm's books regarding both vehicles was a debit in the cash book of €22,500.

(iv) Cash payments of €450 for repairs to equipment had been credited to the creditors account and also credited to the motor vehicles account.

(v) A cheque for €5,250 paid by McCarthy out of a private bank account for 15 months hire of diagnostic equipment up to 31/03/2010 had not been entered in the books.

You are required to:

(a) Journalise the necessary corrections. (50)

(b) Show the Suspense Account. (6)

(c) Prepare a Statement showing the correct net profit. (14)

(d) Prepare a corrected Balance Sheet. (20)

(e) Identify **three** different types of errors that affect the balancing of a Trial Balance. (10)

(100 marks)

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

8. Stock Valuation and Costing

(a) Stock Control

Rose Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2009:

Period	Purchases on credit	Credit Sales	Cash Sales
01/01/2009 – 30/04/2009	3,000 @ €4 each	900 @ €9 each	1,200 @ €11 each
01/05/2009 – 31/08/2009	2,200 @ €6 each	1,100 @ €10 each	1,300 @ €12 each
01/09/2009 – 31/12/2009	1,500 @ €7 each	1,200 @ €10 each	1,200 @ €13 each

On 01/01/2009 there was opening stock of 4,000 units @ €4 each.

You are required to:
(i) Calculate the value of closing stock using 'First in/First out' (FIFO) method.
(ii) Prepare a trading account for the year ending 31/12/2009

(b) Product Costing

Dwyer Ltd is a small company with three departments. The following are the company's budgeted costs for the coming year:

Department	Variable Costs	Fixed Costs	Wage rate per hour
A	€15 per hour	€6 per hour	€13
B	€17 per hour	€5 per hour	€15
C	€22 per hour	€4 per hour	€10

General Administration overhead absorption rate per hour is budgeted to be €5.50.

The following are the specifications for a quotation for **Job No. 209:**
Material Costs €7,350
Labour hours required in each department:

Department	Hours
A	95
B	185
C	60

You are required to:
Calculate the selling price of Job No. 209 if the profit is set at 20% of the selling price.

(c) Under and over absorption of costs

The information set out below refers to the budgeted and actual costs of Hennigan Manufacturing Ltd:

Budgeted	Direct Labour Hours	Machine Hours	Total Overhead
Department X	8,000	35,000	€140,000
Department Y	45,000	10,000	€ 36,000
Department Z	20,000	–	€ 40,000

Actual	Direct Labour Hours	Machine Hours	Total Overhead
Department X	10,000	40,000	€155,000
Department Y	37,000	15,000	€ 30,000
Department Z	25,000	–	€ 45,000

You are required to:
(i) Calculate departmental overhead absorption rates for Departments X, Y and Z.
(ii) Show the under/over absorption by department and in total for the period. Explain what these figures mean.

(80 marks)

9. Cash Budgeting

Woods Ltd is preparing to set up business on 01/07/2011 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	410,000	430,000	560,000	580,000	610,000	630,000	3,220,000
Purchases	190,000	210,000	240,000	250,000	330,000	350,000	1,570,000

(i) The expected selling price is €40 per unit.

(ii) The cash collection pattern from Debtors is expected to be:

Cash Customers: 40% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers: 60% of sales revenue will be from credit customers. These debtors will pay their bills 50% in 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) €45,000 per month payable as incurred.

Capital Costs: Equipment will be purchased in July costing €48,000 which will have a useful life of 5 years. To finance this purchase a loan of €44,000 will be secured at 9% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2012.

You are required to:

(a) Prepare a cash budget for six months July to December 2011.
(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2011.
(c) What is an adverse variance? State why adverse variances may arise in direct material costs.

(80 marks)

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