PRE-LEAVING CERTIFICATE EXAMINATION, 2009

ACCOUNTING - HIGHER LEVEL

(400 marks)

TIME : 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 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 three questions (Numbers 5-7). Each question carries 100 marks. Candidates should answer any **TWO** questions.

Section 3: Management Accounting (80 marks).
This section has two questions (Numbers 8 and 9). Each question carries 80 marks. Candidates should answer **ONE** of these questions.

Calculators
Calculators may be used in answering the questions on this paper: 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. Company Final Accounts including a Manufacturing Account

Dextro Ltd., a manufacturing firm, has an Authorised Capital of €750,000, divided into 450,000 Ordinary Shares at €1 each and 300,000 9% Preference Shares €1 each.
The following Trial Balance was extracted from its books on 31/12/2008:

	€	€
Factory Land and Buildings (cost €480,000)	454,000	
Plant and Machinery (cost €132,000)	97,000	
Profit and Loss Balance 1/1/2008		20,700
Stocks on hand at 1/1/2008		
Finished Goods	19,200	
Raw Materials	23,900	
Work in Progress	16,400	
Sales		689,500
General Factory Overheads (incorporating suspense)	46,300	
Purchases of Raw Materials	378,800	
Sale of Scrap Materials		6,500
Hire of Special Equipment	7,500	
Debtors and Creditors	48,300	21,400
Interim dividends (3 months)	12,500	
Bank		16,500
Discount (net)		6,200
Direct Factory Wages	102,000	
9% Debenture (including €60,000 issued on 1/5/2008)		150,000
VAT		3,000
Issued Share Capital – Ordinary Shares		190,000
– 9% Preference Shares		180,000
Selling and Distribution Expenses	48,300	
Administration Expenses	29,600	
	1,283,800	1,283,800

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

(i) Stocks on hand at 31/12/2008:

	€
Finished Goods	16,600
Raw Materials	25,100
Work in Progress	18,200

(ii) No record has been made in the books for raw materials costing €8,500 which were in transit on 31/12/2008. The invoice for these goods had been received.

(iii) Included in the figure for sales is €2,000 received from the sale of an old machine on 31/3/2008. This machine had cost €15,000 on 1/10/2004. The cheque had been entered in the bank account. This was the only entry made in the books.

(iv) The Suspense figure arises as a result of discount allowed €1,200 entered only in the Discount account.

(v) It was discovered that Finished Goods, which cost €8,400 to produce, were invoiced to a customer on a "sale or return basis". These goods had been entered in the books as a credit sale at cost plus 20%.

(vi) During 2008, Dextro Ltd. built an extension to its warehouse. The work was carried out by the company's own employees. The cost of their labour €32,000 is included in factory wages. The materials, costing €18,000, were taken from stocks. No entry was made in the books in respect of this extension.

(vii) Depreciation is to be provided on Fixed Assets as follows:
Plant and Machinery – 20% of cost per annum, from date of purchase to date of sale.
Factory Buildings – 2% of cost per annum for a full year (land at cost on 1/1/2008 was €60,000).
At the end of 2008 the company re-valued the land and buildings at €620,000.

(viii) The directors are proposing that:
a) The Preference dividend due be paid.
b) The total Ordinary dividend for the year should be 11c per share.
c) Provision should be made for Debenture Interest.
d) Corporation Tax of €12,000 be provided for.

You are required to prepare a:

(a) Manufacturing, Trading and Profit and Loss accounts for the year ended 31/12/2008. (75)
(b) Balance Sheet as at 31/12/2008. (45)
(120 marks)

2. Tabular Statement

The financial position of Shannon Ltd. on 1/1/2008 is shown in the following Balance Sheet:

Balance sheet as at 1/1/2008

	Cost €	Dep. to date €	Net €
Fixed Assets			
Land and buildings	860,000	18,600	841,400
Vehicles	120,000	48,000	72,000
	980,000	66,600	913,400
Current Assets			
Stock	62,300		
Debtors	28,400		
Rates prepaid	2,400	93,100	
Less Creditors: amounts falling due within 1 year			
Creditors	32,100		
Bank Overdraft	26,500		
Expenses due	3,800	62,400	
Net Current Assets			30,700
			944,100
Financed by			
Capital and Reserves			
Authorised – 950,000 Ordinary shares @ €1 each			
Issued – 700,000 Ordinary shares @ €1 each		700,000	
Share Premium		160,000	
Profit and Loss balance		84,100	944,100
			944,100

The following transactions took place during 2008:

Jan: Shannon Ltd. decided to re-value the Land and buildings on 1/1/2008 at €930,000. This valuation included land now valued at €90,000.

Feb: On 1/2/2008 Shannon Ltd. bought an adjoining business which included Buildings €120,000, Vehicles €36,000 and Creditors €18,500. The purchase price was discharged by granting the seller 120,000 shares in Shannon Ltd. at a premium of 20c per share.

April: Received a bank statement on April 30 showing a direct debit of €10,200 to cover rates for the year ending 30/4/2008 and a credit transfer received of €3,200 to cover 10 months rent in advance from May 1.

May: Goods, previously bought by Shannon Ltd. for €3,600, were returned. Owing to the delay in returning these goods a credit note was received showing a deduction of 10% of invoice price as a restocking charge.

July: Received a first and final payment of €800 from a debtor who was declared bankrupt. This amounted to 32c in the €1.

Sept: A vehicle which cost €18,000 was traded-in against a new vehicle costing €26,000. An allowance of €5,400 was made for the old vehicle. Depreciation to date on the old van was €10,500.

Nov: Sold goods on credit for €4,290 at a mark up on cost of 30%.

Dec: The Buildings depreciation charge for the year is to be 2% of book value. The depreciation charge to be calculated from date of valuation and date of purchase. The total depreciation charge for the year on vehicles was €29,000.

You are required to:

Record on a tabular statement the effect each of the above transactions had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2008.

(60 marks)

3. **Published Accounts**

Ascot Plc. has an Authorised Capital of €850,000 divided into 600,000 Ordinary Shares at €1 each and 250,000 9% Preference Shares at €1 each. The following Trial Balance was extracted from its books on 31/12/2008.

	€	€
8% Investments 1/1/2008	150,000	
Patent 1/1/2008	48,000	
Land and buildings (re-valued on 1/7/2008)	960,000	
Delivery vans at cost	96,000	
Delivery vans – Accumulated depreciation on 1/1/2008		28,000
Revaluation Reserve		180,000
Debtors and Creditors	76,500	58,000
Purchases and Sales	525,000	950,200
Stocks 1/1/2008	35,000	
Distribution costs	36,000	
Administration expenses	49,000	
Directors' Fees	76,000	
Salaries and General Expenses	139,000	
Discount		9,500
Advertising	32,000	
Investment Income		9,000
Profit on sale of Land		65,000
Rent	12,000	
Interim dividends	37,500	
Profit and Loss balance 1/1/2008		84,000
9% Debentures (2010/2011) including €80,000 issued on 1/7/2008		220,000
Bank		5,900
VAT		12,400
Issued Capital		
450,000 Ordinary Shares at €1 each		450,000
200,000 9% Preference Shares		200,000
	2,272,000	2,272,000

The following information is also relevant:

(i) Stock on 31/12/2008 was valued on a first in first out basis at €48,000.

(ii) The patent was acquired on 1/1/2004 for €96,000. It is being amortised over 8 years in equal instalments. The amortisation is to be included in cost of sales.

(iii) On 1/5/2008, the Ordinary shareholders received an interim dividend of €31,500 and the Preference shareholders received €6,000. The directors propose the payment of the Preference dividend due and a final dividend on Ordinary shares to bring the total Ordinary dividend to 12c per share.

(iv) On 1/7/2008 land, which had cost €70,000 was sold for €135,000. On this date the remaining land and buildings were re-valued at €960,000. Included in this revaluation is land now valued at €160,000 but which originally cost €110,000. The re-valued buildings had cost €700,000.

(v) Depreciation is to be provided as follows:
Delivery vans at the rate of 20% of cost.
Buildings at the rate of 2% of cost per annum until date of revaluation and thereafter at 2% per annum of re-valued figure.

(vi) Provide for debenture interest due, investment income due, auditors fees €9,800 and taxation €54,000.

(vii) Included in administrative expenses is the receipt of €6,000 for patent royalties.

You are required to:

(a) Prepare the published Profit and Loss account for the year ended 31/12/2008, in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:
1. Accounting policy note for stock and depreciation.
2. Dividends.
3. Interest payable.
4. Operating profit.
5. Tangible fixed assets. (50)

(b) State the criteria that determines whether a company is medium-sized. (10)

(60 marks)

4. <u>Depreciation of Fixed Assets</u>

Fastech Transport Ltd. prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% 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 1/1/2007, Fastech Transport Ltd. owned the following vehicles:

No. 1 purchased on 1/1/2003 for €48,000
No. 2 purchased on 1/10/2004 for €54,000
No. 3 purchased on 1/4/2005 for €76,000

On 1/3/2007, Vehicle No. 3 was crashed and traded in against a new vehicle costing €82,000. The company received compensation to the value of €12,000 and the cheque paid for the new vehicle was €42,000. On 1/9/2008, Vehicle No. 1 was traded in for €11,000 against a new vehicle costing €86,000. Vehicle No. 1 had a refrigeration unit fitted on 1/1/2005 costing €12,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2007 and 2008:

(a) The Vehicles Account. (6)

(b) The Provision for Depreciation Account. (34)

(c) The Vehicles Disposal Account. (14)

(d) Explain, using examples, three causes of depreciation. (6)

(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 Felder Plc., a retailer in the sportswear industry, for the year ended 31/12/2008. The company has an Authorised Capital of €650,000 made up of 450,000 ordinary shares at €1 and 200,000 8% preference shares at €1 each. The firm has already issued 250,000 ordinary shares and all of the preference shares.

Trading and Profit and Loss account for year ended 31/12/2008

	€
Sales	875,000
Cost of goods sold	(438,000)
Operating expenses for year	(336,500)
Interest for year	(10,500)
Net profit for year	90,000
Proposed dividends	(33,500)
Retained profit for year	56,500

Ratios and figures for year ended 31/12/2007

Interest Cover	12 times
Quick Ratio	0.8 to 1
Earnings per Ordinary Share	24c
Return on Capital Employed	9.5%
Market Value of one Ordinary Share	€1.30
Gearing	48.5%
P/E Ratio	6.5 years
Dividend per Ordinary Share	8c

Balance Sheet as at 31/12/2008

	€	€
Intangible Assets		160,000
Tangible Assets		550,000
Investments (market value €90,000)		110,000
		820,000
Current Assets		
(inc. Stock €30,000 and Debtors €35,000)	95,000	
Current Liabilities		
Trade Creditors	(28,000)	
Proposed Dividends	(33,500)	33,500
		853,500
7% Debentures 2012/2013		150,000
Issued Capital		
Ordinary shares @ €1 each	250,000	
8% Preference shares @ €1 each	200,000	
Profit and Loss Balance	253,500	703,500
		853,500

Market Value of one Ordinary Share €1.45

You are required to calculate the following for 2008:

(a) (i) The Dividend Yield.
(ii) The cash sales if the average period of credit to debtors is 1.5 months.
(iii) The Interest Cover.
(iv) The Ordinary Dividend Cover in 2008.
(v) How long would it take one ordinary share to recover its 2008 market price (assume current performance is maintained)? (45)

(b) Indicate whether the Debenture holders would be satisfied with the performance, state of affairs and policies of the company. Use relevant ratios and other information to support your answer. (40)

(c) A company which has high gearing should always strive to reduce it. Briefly discuss. (15)

(100 marks)

6. <u>Incomplete Records</u>

A. Fay lodged €650,000 to a business bank account on 1/1/2008 and on the same day purchased a business for €610,000, including the following assets and liabilities: Premises €540,000; Stock €36,500; Debtors €48,200; 4 months Rates prepaid €2,080; Trade Creditors €32,500; Wages due €850.

Fay did not keep a full set of books during 2008 but estimates that the gross profit was 40% of sales and he was able to supply the following additional information on 31/12/2008:

(i) Each week Fay took goods from stock to the value of €300 and cash €250 for household expenses.

(ii) Fay borrowed €250,000 on 1/9/2008, part of which was used to purchase an adjoining premises costing €230,000. It was agreed that Fay would pay interest on the last day of each month at the rate of 9% per annum. The capital sum was to be repaid in a lump sum in the year 2014 and, to provide for this, the bank was instructed to transfer €1,800 on the last day of each month from Fay's business account into an investment fund commencing on 30/9/2008.

(iii) During the year, Fay lodged dividends €4,800 to the business bank account and made the following payments: light and heat €8,300; interest €3,100; wages and general expenses €102,000; furniture €18,000; rates for twelve months €7,080 and college fees €9,000.

(iv) Fay estimated that 20% of the following: furniture, light and heat *used* and interest *payable* should be attributed to the private section of the premises. Fay further estimates that 30% of college fees should be attributed to a family member and the remainder to an employee.

(v) Included in the assets and liabilities of the firm on 31/12/2008 were: Stock €38,200, Debtors €42,400, Trade Creditors €35,100, Cash at bank €33,220, Electricity due €300 and €120 interest earned by the investment fund to date.

You are required to prepare, with workings, a:

(a) Statement/Balance Sheet showing Fay's profit or loss for the year ended 31/12/2008. (50)

(b) Trading, Profit and Loss Accounts, in as much detail as possible, for the year ended 31/12/2008. (40)

(c) Summary of the advice you would give Fay in relation to the information given above. (10)

(100 marks)

7. **Service Company Accounts**

The following were included in the assets and liabilities of Hip-Hop Health Centre Ltd. on 1/1/2008: Buildings at cost €480,000; Equipment at cost €60,000; Furniture at cost €24,000; Stock of health food for sale €6,200; Heating oil €480; Creditors for supplies to Health Centre €6,900; 4% Investments €80,000; Contract cleaning prepaid €1,280; Clients' Fees paid in advance €3,600; Authorised Capital €650,000; Issued Capital €540,000.

All fixed assets have 3 years accumulated depreciation on 1/1/2008.

The following is the Receipts and Payment Account for the year ended 31/12/2008:

Receipts and Payments Account of Hip-Hop Health Centre Ltd.
for the year ended 31/12/2008

	€		€
Balance at Bank 1/1/2008	9,200	Laundry	5,200
Clients' fees	184,800	Wages and Salaries	101,850
Investment Income	3,200	Repayment of €25,000 loan on 1/3/2008 with 20 months interest	28,750
Shop receipts	76,300		
Balance at Bank 31/12/2008	3,600	Equipment	9,000
		New extension	40,000
		Contract Cleaning	14,620
		Light and Heat	6,200
		Insurance	12,800
		Telephone and postage	3,680
		Purchases – shop	40,100
		Purchases – supplies	14,900
	277,100		277,100

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

1. Closing stock at 31/12/2008: Shop €7,400; Heating Oil €360.
2. Cleaning is done under contract payable monthly in advance and includes a payment of €1,400 for January 2009.
3. Clients' fees include fees for 2009 of €4,800. Clients' fees in arrears at 31/12/2008 €950.
4. The closing figure for bank does not take into account a dishonoured cheque €220 received from a client and lodged in late December.
5. Wages and Salaries include €28,000 per annum paid to the receptionist, who also runs the shop. It is estimated that 40% of this salary, €1,200 of the light and heat, €900 of the insurance and €640 of the telephone are attributable to the shop.
6. On 31/12/2008, Hip-Hop Health Centre Ltd. decided to re-value Buildings at €580,000.
7. Electricity due 31/12/2008 €180.
8. Creditors for supplies to the health centre at 31/12/2008 are €6,500.
9. Depreciation to be provided as follows:
   Buildings 2% of cost for the full year.
   Equipment 20% of cost per annum.
   Furniture 15% of cost per annum.

You are required to:

(a) Calculate the company's reserves on 1/1/2008. (20)
(b) Calculate the Profit/Loss from the health shop for the year ended 31/12/2008. (10)
(c) Prepare a Profit and Loss Account for the year ended 31/12/2008. (30)
(d) Prepare a Balance Sheet on 31/12/2008. (30)
(e) Briefly explain the purpose of preparing Service Firm Accounts. (10)

(100 marks)

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

8. <u>Job Costing</u>

There are three departments in Abacus Ltd. - Manufacturing, Assembly and Packaging. The following costs relate to 2009.

	Total	**Manufacturing**	**Assembly**	**Packaging**
	€	**€**	**€**	**€**
Indirect materials	380,000	240,000	80,000	60,000
Indirect labour	160,000	70,000	50,000	40,000
Light and heat	120,000			
Rent and rates	64,000			
Machine maintenance	36,000			
Plant depreciation	42,000			
Factory canteen	28,000			

The following information relates to the three departments.

	Total	**Manufacturing**	**Assembly**	**Packaging**
Floor space in square metres	16,000	12,000	3,000	1,000
Volume in cubic metres	48,000	24,000	16,000	8,000
Plant valuation at book value	€600,000	€450,000	€100,000	€50,000
Machine hours	80,000	48,000	24,000	8,000
Number of employees	63	27	18	18
Labour hours	90,000	50,000	25,000	15,000

Job No. 545 has just been completed. The details are:

	Direct Materials	**Direct Labour**	**Machine Hours**	**Labour Hours**
	€	**€**		
Manufacturing	12,000	3,500	28	18
Assembly	9,500	2,800	15	32
Packaging	–	900	3	12

The company budgets for a profit margin of 25%.

You are required to:

(a) Calculate the overhead to be absorbed by each department stating clearly the basis of apportionment used.

(b) Calculate a suitable overhead absorption rate for each department.

(c) Compute the selling price of Job No. 545.

(d) (i) Outline briefly two benefits of product costing.

(ii) Explain two differences between Financial Accounting and Management Accounting.

(80 marks)

9. Cash Budgeting

Darragh Ltd. had the following assets and liabilities on 1 January 2009:

	€	€
Assets		
Stock	44,800	
Debtors	18,200	
Cash	3,400	
Insurance prepaid (4 months)	1,800	
		68,200
Liabilities		
Capital		68,200

Darragh Ltd. expects the sales for the next 7 months will be as follows:

Jan	Feb	March	April	May	June	July
€64,000	€88,000	€76,000	€78,000	€83,000	€79,000	€86,000

(i) 60% of sales are for cash and 40% are on credit, collected one month after sale.

(ii) Gross profit as a percentage of sales is 30%.

(iii) Darragh Ltd. wishes to keep a minimum cash balance of €7,000 at the end of each month.

(iv) All borrowings are in multiples of a thousand euro and interest is at the rate of 8% per annum.

(v) Purchases each month should be sufficient to cover the following month's sales.

(vi) Purchases are paid for by the end of the month.

(vii) A machine is to be purchased on 1 February for €18,000 (Depreciation 20% per annum on cost).

(viii) Darragh Ltd. rents the premises for €30,000 per annum payable each month.

(ix) Wages amounting to €9,500 are paid each month.

(x) A computer is to be purchased for cash on 1 March for €3,200 (Depreciation 15% per annum on cost).

(xi) Insurance to be paid for 6 months from 1 May will be €3,300 (payable in May).

(xii) One quarter of the money borrowed on 31 January 2009 is to be repaid at the end of June together with interest to date on the repaid amount.

You are required to:

(a) Prepare a Cash budget for the six months from January to June.

(b) Prepare a Budgeted Profit and Loss (Pro-Forma income statement) for the six months ended 30/6/2009.

(c) Outline three areas in which budgeting can help to improve the performance of a business.

(80 marks)

Blank Page

Blank Page