PRE-LEAVING CERTIFICATE EXAMINATION 2013

Accounting – Higher Level
(400 Marks)

3-hour duration

The 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 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

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Section 1 (120 Marks)
Answer Question 1 OR
any TWO other questions

Q.1 Manufacturing Accounts

Wenger Ltd, a manufacturing firm has an Authorised Share Capital of €950,000 divided into 700,000 Ordinary shares at €1 each and 250,000 7% preference share €1 each. The following trial balance was extracted from its books on 31/12/12.

Buildings (cost €500,000)	462,000	
Plant & Machinery (cost €210,000)	142,000	
Patents (cost €80,000)	48,000	
Profit & Loss Balance at 1/1/12		58,500
Bank		88,400
Debtors & Creditors	79,000	60,600
Purchases of raw materials	428,800	
Sales		776,500
Sale of scrap materials		3,500
Direct factory wages	118,600	
General factory overheads (inc Suspense)	46,600	
Selling and Distribution expenses	21,600	
Administration expenses	44,900	
8% Debentures (including €20,000 issued on 1/4/12)		180,000
Stocks on hand at 1/1/12		
Finished goods	93,000	
Raw materials	29,000	
Work in progress	44,000	
Interim dividends for 6 months	29,500	
Issued shared capital		
Ordinary Shares		300,000
Preference Shares @7%		100,000
VAT		19,500
	1,587,000	1,587,000

(i) The following information and instructions are to be taken into account.

Stock on hand at 31/12/12

Finished goods	€85,000
Raw materials	€43,000
Work in progress	€27,000

(ii) No record has been made in the books of raw materials costing €23,800, which were in transit on 31/12/12. The invoice for these goods had been received.

(iii) Stocks of raw materials costing €7500 were destroyed by fire during the year and the insurance company have agreed to settle. No entry has been made in the books.

(iv) Included in the sale of scrap is €600 received for the sale of obsolete machinery. The machinery had cost €4,500 on 1/7/08. The disposal took place on 30/9/12. The cheque had been entered in the Bank account. No other entry had been made in the books.

(v) It was discovered that goods which cost €8,000 to produce were sent to a customer on a sale or return basis. These goods were charged to the customer in error at cost plus 25%.

(vi) The suspense figure arises as a result of discount allowed €350 entered only in the discount account.

(vii) Patent is being written off over 10 years.

(viii) During the year Wenger Ltd built an extension to the warehouse. The work was carried out by the company's owns employees. The cost of their labour €28,000 is included in factory wages. The materials costing €46,000 were taken from the firm's stocks. No entry had been made in the books in respect of this extension.

(ix) At the end of 2012 the company revalued the land and buildings at €800,000.

(x) Depreciation is to be provided using the straight-line method as follows:
- Plant and machinery 20% per annum at cost
- Buildings 3% per annum (based on end of year value).

(xi) The directors are proposing that
- The preference dividend due be paid
- The total ordinary dividend for the year should be 15 cent per share.
- Provision should be made for debenture interest and corporation tax of €24,000.

You are required to
Prepare manufacturing, trading and profit and loss accounts for the year ended 31/12/12. (75)
Prepare a balance sheet as at 31/12/12(45)

2. Creditors Control Account
The Creditors Ledger Control Account of P. Waters showed the following balances - €52,335 cr and €680 dr on 31/12/2012. These figures did not agree with the Schedule (List) of Creditors' Balances extracted from the creditor's ledger on the same date. An examination of the books revealed the following:

(i) A credit note was received from M. Jones for €315. The only entry made in the books was €351 credited to the creditors account.

(ii) An invoice received from K. Casey showing the purchase of goods for €1,400 less trade discount 20% had been entered correctly in the appropriate day book but had not been posted to the personal account.

(iii) A creditor had charged Waters interest of €85 on an overdue account. The only entry made in Water's books for this interest had been €45 debited to the creditors account. After a complaint by Waters this charge had been reduced to €35 but this reduction had not been reflected in the books.

(iv) Discount disallowed by a supplier of €83 had been treated as discount received in the books.

(v) Cash purchases by Waters of €720 had been debited to a suppliers account.

(vi) Waters had returned goods €820 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)

3 Correction of errors

The trial balance of Harry Holly, a garage owner, failed to agree on 31/12/12 and the difference was entered in a suspense account prior to the preparation of final accounts. On examination of the books the following errors were revealed.

a) Car parts, previously sold on credit for €820, had been returned to Holly. These returns had been incorrectly entered as €20 on the credit of equipment account and as €280 on the debit of purchases account.

b) A debt of €700 owed privately to Holly by a business creditor had been offset in full settlement against a business debt of €640 owed by Holly. No entry had been made in the books in respect of this offset.

c) A motor car purchased on credit from M. Curtin for €8,000 was entered on the incorrect side of Curtin's account and credited as €8,800 in the equipment account.

d) Payments from business bank account for repairs to buildings €320 and insurance of private house €480 were entered correctly in the bank account, but respectively credited to buildings account and credited to insurance account.

e) Holly had returned stock previously purchased on credit for €15,400 and had entered this transaction in the relevant ledger accounts incorrectly as €14,500. However a credit note subsequently arrived from the supplier showing a restocking charge of €700. The only entry made in respect of this credit note was a credit of €14,700 in the suppliers account.

- Journalise the necessary corrections. (35)
- Show the suspense account (10)
- Prepare a statement of corrected net profit if the original profit was €40,500. (15)

Q. 4 Tabular Statements

The financial position of Arteta Ltd on 1/1/2012 is shown in the following Balance Sheet.

Balance Sheet as at 31/12/2012

	Cost	Dep to date	Net
Fixed Assets			
Land and Buildings	520000	40000	480000
Equipment	60000	25000	35000
	580000	65000	515000
Current Assets			
Stock		80000	
Debtors		95000	
Insurance Prepaid		1200	
		176,200	
Less creditors: amounts falling due within 1 year			
Creditors	71000		
Bank	48000		
		119,000	57200
			572200
Financed by:			
Capital and Reserves			
Authorised – 400,000 ordinary shares @ €1 each			
Issued – 290,000 ordinary shares @ €1 each			290,000
Share Premium			25,000
Profit and Loss balance			257,200
			572,200

The following transactions took place in 2012

Jan: Arteta Ltd decided to revalue the land and buildings on 1/1/2012 at €750,000 which includes land now valued at €100,000

Feb: A creditor who was owed €3,800 by Arteta Ltd accepted equipment the book value of which was €3,100 in full settlement of this debt. The equipment had cost €3,700

March: Received a Bank statement showing a direct debit of €7,200 for fire insurance to cover the year ended 31/3/13

April: A payment of €400 was received from a debtor whose debt had previously been written off as bad and now wishes to trade with Arteta Ltd again. This represents 20% of the original debt and the debtor has undertaken to pay the remainder of the debt by January 2013.

July: Arteta Ltd bought an adjoining business on 1/7/2012 which included Buildings €120,000, stock €75,000 and creditors €70,000. the purchase price was discharged by granting the seller 100,000 shares in Arteta Ltd at a premium of 35 cent each

Aug Received €14,000 from the issue of the remaining shares.

Sep: An interim dividend of 7c per share was paid on all paid up shares

Dec: The buildings depreciation charge for the year is to be 2% of Book value. The depreciation charge is to be calculated from date of valuation and date of purchase.

You are required to

Record on a tabular statement the effect each of the above transaction had on the relevant asset and liability and ascertain the total assets and liabilities on 31/12/2012 (60)

SECTION 2 Answer Two Questions

5. Interpretation of Accounts

The following figures have been taken from the Final Accounts of Higgins plc, a manufacturer in the construction industry for the year ended 31/12/2012. The company has an authorised capital of €600,000 made up of 500,000 ordinary shares at €1 each and 100,000 7% preference shares at €1 each. The firm has already issued 400,000 ordinary shares and all of the 7% preference shares.

Trading and Profit and Loss account for year ended 31/12/2012

	€
Sales	960,000
Costs of goods sold	(745,000)
Operating expenses for year	(125,000)
Interest	(25,000)
Net Profit for year	65,000
Dividends paid	(47,000)
Retained Profit	18,000
Profit and Loss Balance 1/1/2012	51,000
Profit and Loss Balance 31/12/2012	69,000

Ratios and information for year ended 31/12/2011

• Earnings per Ordinary Share	21.25c
• Dividend per Ordinary Share	13.7c
• Interest Cover	5 times
• Quick Ratio	0.88 to 1
• Return on Capital Employed	13.6%
• Market value of an ordinary share	€1.60
• Gearing	32%

Balance Sheet as at 31/12/2012

	€	€
Fixed Assets		650,000

Investments (market value 31/12/2012 – €120,000)		180,000
		830,000
Current Assets (including Stock €28,500 and Debtors €90,000)	145,000	
Less Creditors: amount falling due within 1 year		
Trade Creditors	(156,000)	(11,000)
		819,000
Financed by		
10% Debentures (2016 secured)		250,000
Capital and Reserves		
Ordinary Shares @ €1 each	400,000	
7% Preference Shares @ €1 each	100,000	
Profit and Loss Balance	69,000	569,000
		819,000

Market value of one ordinary share €1.30

You are required to calculate the following for 2012:

(a)
(i) The Cash Sales if the period of credit given to debtors is 2 months
(ii) Return on Capital employed
(iii) The Earnings per Share
(iv) The Dividend Yield
(v) How long it would take one Ordinary share to recover its value based on present performance? (45)

(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) Having assessed Higgins plc what actions would you advise the company to take? (15)
(100 marks)

Q 6 Incomplete Records

On 1/1/2012, P. Shaw purchased a business for €690,000 which included the following tangible assets and liabilities: Premises €660,000; Stock €19,000; Debtors €22,000; 3 months Premises Insurance prepaid €1,200; Trade Creditors €28,200; Wages due €2,800 and Cash €400

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During 2012 Shaw did not keep a full set of accounts but was able to supply the following information on 31/12/2012.

Cash Payments: Lodgements €126,000, General Expenses €85,800, Purchases €93,200.

Bank Payments: Furniture €24,000, Creditors €28,800, Light and Heat €6,400, Interest
€2,250, Annual Premises Insurance Premium €6,800, Delivery Van €27,400.

Bank Lodgements: Debtors €51,000, Cash €126,000, Dividends €13,000.

Each week Shaw took goods from stock to the value of €100 and cash €220 for household expenses.

Shaw borrowed €160,000 on 1/9/2012, part of which was used to purchase an adjoining premises and residence costing €135,000. It was agreed that Shaw would pay interest on the last day of each month at a rate of 6% per annum. The capital sum was to be repaid in a lump sum in the year 2022 and to provide for this the bank was to transfer €1,300 on the last day of each month from Shaw's business bank account into an investment fund commencing on 30/9/2012.

Shaw estimated that 25% of the Furniture, 20% of interest *payable* for the year and 25% of Light and heat *used* should be attributed to the private section of the premises.
Included in the assets and liabilities of the firm on 31/12/2012 were: Stock €21,400, Debtors €15,200,
Trade Creditors €29,400, Cash €300, Electricity due €1,480 and €35 interest earned by the fund to date.

You are required to:

(a) Prepare with workings the Trading and Profit and Loss Accounts for the year ended 31/12/2012. (52)

(b) Show the Balance Sheet with workings as at 31/12/2012. (40)

(c) (i) Explain the term Accounting Concept?

(ii) Name TWO fundamental accounting concepts.

(iii) Illustrate an accounting concept applying to the accounts of P. Shaw. (8)

(100 marks)

7 Published Accounts

Reyes Plc

Reyes Plc has an Authorised capital of 750,000 dividend into 500,000 Ordinary Shares at E1 each and 250,000 6% Preference shares at E1 each. The following trial balance was extracted from its books on 31.12.2012.

Buildings-cost at 1-1-2012	690,000	
Buildings-accumulated depreciation on 1-1-2012		52,000
Debenture Interest paid	4,000	
Provision for bad debts		1,250
Administration expenses	65,000	
Salaries and General Expenses	140,000	
Discount		14,200
Investment Income		3,500
Profit on sale of land		40,000
Patents at 1-1-2012	27,000	
9% Investments 1-1-2012	48,000	
Debtors and Creditors	30,000	53,500
Purchases and Sales	480,000	740,000
Stocks 1-1-2012	23,500	
Rent	9,200	
Advertising	18,700	
Interim dividends for first 6 months	13,250	
Profit and Loss balance 1-1-2012		51,600
8% Debentures (2015/2017) including 20000 issued on the 30-9-2012)		90,000
Bank		15,600
VAT	13,000	
Issued Capital		
350,000 Ordinary Shares at 1 each		350,000
150,000 Preference Shares at 1 each		150,000
	1,561,650	1,561,650

The following additional information is provided

(i) Stocks at 31-12-2012 is €24,400

(ii) Provision is to be made for

Director’s fees €10,000
Auditor’s fees €6,200
Corporation Tax €26,000
Debenture interest due at 31-12-2012
Investment Income due at 31-12-2012

(iii) Depreciation is to be provided as follows:

Building-2% straight line (there were no purchases or sales of buildings during the year). During the year land which cost €70,000 was sold for €110,000. At the end of the year the company re-valued its' buildings at 900,000. The company wishes to incorporate this value in this year's accounts.

(iv) The patent was acquired on 1-1-2010 for €36,000. It is being amortised over 8 years in equal instalments. The amortisation should be included in the Cost of sales.

(v) On 1-7-2012 interim dividends of €8,750 and €4,500 were paid to the ordinary and preference shareholders, respectively. The directors propose the payment of the preference dividend due and a final dividend on ordinary shares of 3c per share.

(vi) The Debentures are secured by a fixed charge over the company's tangible fixed assets.

You are required to:

(a) Prepare the published Profit and loss Account for the year ended 31-12-2012 and a Balance Sheet as at that date in accordance with the Companies Acts and latest 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

(b) What is the purpose of an audit (8)?
(c) Explain "Unqualified report" (7)

Section 3 (80 marks)

Answer ONE question

Question 8 Marginal Costing

Marginal Costing

Genfitt Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2012, during which 90,000 units were produced and sold, was as follows:

	€	€
Sales (90,000 units)		1,080,000
Materials	280,000	
Direct labour	346,000	
Factory overheads	72,000	
Selling expenses	115,000	
Administration expenses	110,000	(923,000)
Net profit		157,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% on sales, selling and administration expenses are fixed.

You are required to calculate:
(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold in 2013 if the company is to increase its net profit by 20% over the 2012 figure, assuming the selling price and cost levels and percentages remain unchanged.
(c) The profit the company would make in 2013 if it reduced its selling price to €11, increased fixed costs by €25,000 and thereby increased the number of units sold to 105,000, with all other cost levels and percentages remaining unchanged.

(d) The selling price the company must charge per unit in 2013, if fixed costs increase by 15% but the volume of sales and profit remains the same.

(e) The number of units that must be sold at €15 per unit to provide a profit of 10% of the sales revenue received from these same units.

(f) (i) List and explain **two** limitations/assumptions of marginal costing.
(ii) Explain what is meant by a step fixed cost.

(80)

Question 9

Production Budgeting

Emirates Ltd has recently completed its sales forecast for the year ended 31-12-13

It plans on selling two products- Bronze for €140 and Silver for €170. All stocks are to be reduced by 10% from their opening levels by the end of 2013 and are valued using the FIFO method.

	Bronze	Silver

Sales demand is expected to be	6000 units	5000 units

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Bronze	Silver
Material A	4 kgs	7kgs
Material B	3kgs	5 kgs
Skilled labour	4 hrs	5 hrs

The skilled labour rate per hour is €12.
Stock of finished goods on 1 January 13 are expected to be

Bronze 300 units @ €75 each
Silver 200 units @ €90 each

Stocks of raw materials on 1 January 13 are expected to be
Material A 5000kgs @ €1.70 per kilo
Material B 4600kgs @ €2.20 per kilo

The expected price of raw materials during 2013 are
Material A @ €2.30 per kilo
Material B @ €2.50 per kilo

The company's production overheads are expected to be
Variable €4 per skilled labour hour
Fixed €140,000 per annum

You are required to prepare for 31/12/13 Emirates Ltd's
a) Production budget in units
b) Raw materials usage budget in units
c) Raw materials purchase budget (in units and €)
d) Manufacturing budget
e) Budgeted trading account (80 marks)

Mock solution

Solution to Q.1

Purchases of raw materials	428,800+23800	= 452,600
Creditors	60,600 +23,800	= 84,400
Closing stock raw materials	43,000 + 23,800	= 66,800

Purchases of raw materials
452600 -7500 = 445100

Sale of scrap a/c

Disposal	600	Bal	3500
Bal	***2900***		

Plant and Machinery a/c

Bal b/d	210,000	Disposal	4500
		Bal	***205500***

Acc Dep a/c

Disposal	3,825	Bal b/d	68,000
Bal c/d	**105,950**	P+L	***41,775***
	109775		109775

Disposal a/c

Plant	4,500	Scrap	600
		Acc dep	3,825
		Loss	75

Sold	4500	x	20%	x	9/12	=	675
Rest	205,500		x	20%			= 41100
							41775

Backdate 4500 X 20% X 4.25 years =3825

Sales	776,500 - 10000			=766500
Debtors	79000 - 10000			= 69,000
Closing stock finished goods	85000	+ 8000	=	93,000

Debtors			
Bal	79000	Returns	10000
		Overheads	350
		Balance	***68650***

General factory overheads			
Bal	46600		
Debtors	350		
	46950		

Land and Buildings	500000	+	28000	+	46000	=	574000
Direct wages	118600	-	28000			=	90600
Purchases of raw materials 445100 –46000						=	399100

Land & Buildings			
Bal	500000	Bal c/d	800000
Extension	74000		
Reval Res	226000		

Acc dep a/c			
Reval Res	55220	Bal b/d	38000
		P&L	***17220***

Revaluation Reserve			
Bal c/d	***281220***	Land & Buildings	226000
		Acc Dep	55220

Preference dividend =			
100,000	X 7%	=	7,000
½ year paid		=	***3,500***
½ year due		=	***3,500***
Ordinary dividend =			
paid		=	***26000***
due		=	***19000***
Total for year 15c x 300,000		=	45000
Debenture interest =			
160000 x 8%		=	12800
20000 x 8% x 9/12		=	1200
			14000

Manufacturing account of Wenger Ltd for yr ending 31/12/12 (1)

Raw materials		
Opening Stock	(2)	29,000
Purchases	(4)	399,100
		428,100
- closing stock	(2)	66,800
		361,300

Direct wages			(4)	90,600
				451,900
Patent w/o	(3)	8000		
Loss on disposal	(4)	75		
Dep of Plant & Machinery	(4)	41,775		
Dep of Land & Buildings	(3)	17,220		
General factory overheads	(3)	46,950		114,020
				565,920
Add WIP at 1/1			(2)	44,000
				609,920
Less WIP at 31-12			(2)	(27,000)
				582,920
Less sale of scrap	(3)	2,900		
				(2,900)
				580,020

Trading Profit and loss AC for year ending 31-12-12

Sales			(4)	766,500
Less Cost of Sales				
Opening stock	(2)	93,000		
Cost of manufacture	(2)	580,020		
		673,020		
- Closing stock	(6)	93,000		580,020
Gross Profit				186,480
Less expenses				
Administration	(3)	44,900		
		44,900		
Selling expenses	(2)	21,600		
				66,500
Operating profit				119,980
Less interest			(4)	14,000
Net profit				105,980
Less taxation			(2)	24,000
Profit after tax				81,980
Ordinary div paid	(3)	26,000		
Ordinary div due	(3)	19,000		
Pref div paid	(3)	3,500		
Pref div due	(3)	3,500		52,000
Retained earnings for year				29,980
+ P & L at 1/1/12			(1)	58,500
+ P & L at 31/12/12				88,480

Balance Sheet as at 31/12/12

Intangible fixed assets

Patents	(3)	40,000

Tangible fixed assets	**Cost**	**Acc dep**	**NBV**	
Buildings	800,000	-	(2) 800,000	
Plant & Machinery	205,500 (2)	(3) 105,950	99,550	899,550
				939,550
Current Assets				
Stock – raw materials		(2) 66,800		
- WIP		(2) 27,000		
- finished goods		(2) 93,000		
Debtors		(2) 68,650		
Claim due from insurer		(1 7,500		
		262,950		
Creditors amts falling due in less than one year				
Trade creditors	84,400 (2)			
VAT	19,500 (3)			
Debenture interest due	14,000 (4)			
Dividends due	22,500 (3)			
Taxation	24,000 (2)			
Bank	88,400 (2)	252,800		
Working Capital				10,150
Net assets				**949,700**
Financed by:				
Creditors falling due after one year				(2) 180,000
Capital & reserves				
Ordinary share – Issued			(2) 300,000	
Preference share – issued			(2) 100,000	
Revaluation reserve			(4) 281,220	
P & L balance			(1) 88,480	762,200
				949,700

Solution to Q. 2

Adjusted Creditors Control A/C

Balance b/d	680 [2]		Balance b/d	52,335 [2]	
Credit Note	315 [4]		Interest	35 [5]	
Balance c/d	52,303		Discount disallowed	166 [5]	
			Restocking charge	82 (5)	
			Balance c/d	680 [1]	

	53,298				
Balance b/d	680		Balance b/d	52,303	

Schedule of Creditors Accounts Balances

			€
	Balance as per list of Creditors		50,859 [4]
Add			
		Invoice (ii)	1,120 [3]
		Interest (iii)	80 [4]
		Discount disallowed (iv)	166[4]
		Cash Purchases (v)	720 [4]
			2086
Deduct	Credit Note adjustment (i)	666 [4]	
	Credit Note (vi)	656 [4]	(1322)
	Net Balance as per adjusted Control Account		51,623 [1]

(c)

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Errors in either the control account or in the schedule but not in the other [4]
Failure to complete the double entry/ Errors in the ledgers [4]
Incorrect totalling of subsidiary books sent to control account

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Solution to Q. 3

a)

Debit Sales returns	820 (2)	
Credit Debtors		820 (2)
Debit Equipment	20 (2)	
Credit Purchases		280 (2)
Debit Suspense	260 (2)	

Being sales returns entered in equipment and purchases now corrected

b)

	2	640		
Debit creditors				
Credit capital			2	640

Being private debt offset against business. Creditor now corrected.

c)

Debit purchases	2	8,000		
Debit equipment	2	8,800		
Credit Curtin			2	16,000
Credit Suspense			1	800

Being purchase of stock incorrectly entered in creditors and equipment now corrected.

d)

Debit repairs	2	320		
Debit drawings	2	480		
Debit buildings	2	320		
Debit insurance	2	480		
Credit Suspense			1	1,600

Being repairs and drawings incorrectly entered now corrected.

e)

Credit Purchases returns	2			200
Debit creditors	2	14,900		
Credit Suspense			1	14,700

Being purchases returns and restocking charge incorrectly recorded now corrected.

Suspense a/c

Original difference		16,840			
Purchases	2	260	Equipment	2	800
			Repairs	1	320
			Drawings	1	480
			Capital	1	320
			Equipment	1	480
			Creditors	2	14,700
		17100			17100

<u>Statement of corrected net profit at 31/12/12</u>

Balance as per original books				40,500
Add purchases			3	280
Purchases returns			3	200
				40,980
<u>Less</u>				
Purchases	2	8,000		
Repairs	2	320		
Insurance	2	480		
Sales returns	2			
	820			
				9,620
Corrected net profit			*1*	*31,360*

===========================o0o=========================

Solution to Q. 4

Assets	1-1-12	Jan.	Feb	March	April		July	Aug	Sept.	Dec	Dec	Dec	Total
Land +Bdgs	520000	230000(2)					120000(2)						870000
Acc dep	(40000)	40000(2)								(14200)(2)			(14200)
Equipment	60000		(3700)(2)										56300
Acc dep	(25000)		600(2)										(24400)
Debtors	95000				1600(2)								96600
Insurance P.P.	1200			7200(2)							(6600)(2)		1800(2)
Stock	80000						75000(2)						155000
Goodwill							10000(2)						10000
	691200	270000	(3100)	7200	1600		205000			(14200)	(6600)		1151100(3)
Liabilities													
Issued ord shares	290000						100000(2)	10000(1)					400000
Share premium	15000						35000(2)	4000(1)					54000
Creditors	81000		(3800)(2)				70000(2)						147200
Bank	38000			7200(2)	(400)(2)			(14000)(1)	28000(2)				58800(1)
P+L	267200		700(2)		2000(2)				(280000)(2)	(14200)(2)	(6600)(1)		22100(4)
Reval Res		270000(2)											270000
Total	691200												
	691200	270000	(3100)	7200	1600		205000			(14200)	(6600)		1151100

Question 5
45
Cash Sales
Debtors x 12 = 2 Credit Sales = 90,000 x 12
= 1,080,000 / 2

Credit sales = 540,000
Cash sales = 960,000 – 540,000 = ***€420,000*** [**10**]

Return on Capital Employed
Net profit + interest x 100 = 65,000 + 25,000 x 100 = ***10.98%*** **[8]**
Capital employed 819,000

Earnings per share
Net profit after preference dividend = 58,000 = **14.5c [8]**
Number of ordinary shares 400,000
Dividend Yield
Dividend per share x 100 = 10c x 100
Market price 130 = **7.69%** [**10**]
Period to recoup share
Market price = 130
Earnings per share 14.5c = ***8.96 years [9]***

Performance [**15**]
Profitability. Higgins plc is a profitable business as its ROCE in 2012 is 10.98% and 13.6% in 2011.
This indicates that the firm is earning nearly 4 times the return from risk free investments of about 3%.
However, the profitability has disimproved by 2.62% since 2011 which shows a less efficient use of resources.

Dividend Policy
The Dividend per Share is 2012 is 10c and was 13.7c in 2011. This has disimproved by 3.7c since 2011. The company's dividend cover is 1.45 times but was 1.55 times in 2011. Less profits are retained in 2012. The dividend yield is 7.69% in 2012 and was 8.56% in 2011. This has declined by 1% since last year. This is a worrying trend and the shareholders would prefer a higher dividend yield.
The yield is above the return on a risk free investment of about 3%.

State of Affairs [**15**]
Liquidity. Higgins plc has a liquidity problem and would have great difficulty paying its debts as they fall due. The company only has 74c available in liquid assets to pay each €1 of short term debts. This has disimproved from 2011 when the company had 88c available to cover each €1 owed. In both years the ratio has been below the ideal of 1:1 and is a cause of worry to shareholders.

Gearing. This is a low geared company. The Gearing of the company is 42.73%. This would please the shareholders as it increases their chances of getting a dividend and there is little risk from outside investors.
However the gearing was 32% in 2011. This trend would worry the shareholders.
The interest cover is 3.6 times and shows that the ability of the company to meet their interest charges is satisfactory though not exceptionally good. It has fallen from 5 times in 2011.

Investment Policy. The investments made by the company cost €180,000. These investments now have a market value of €120,000, a drop in value of 33.3%. This shows poor management of resources although one must take into account the economic downturn globally in 2012. This would not please the shareholders.

Prospects [**10**]
Value of shares. The market value is €1.30 in 2012. In 2011, it was €1.60. The price has dropped by 18.7%.
This would not please the shareholders as it shows a lack of public confidence in the company by the market.

Sector. Higgins plc is a manufacturer in the construction industry. This is not a good sector to be in at the moment as the construction industry has declined significantly in the past 4 years due to the slow down in economic growth. Property developers are finding it hard to sell properties and this in turn has a knock on effect for companies in the building industry as building has almost come to a standstill.

(c) 15 (3 x 5)
Acid Test Ratio is only 0.74 to 1. Ratio dropped from 0.88 to 1 in 2011. Company has a liquidity problem
Raise cash and improve liquidity by:
1. Paying out lower or no dividends
2. Selling investments rather than issuing debentures.
3. Issuing the remaining shares.
4. Improving gross profit percentage of 22.39% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

Question 6- solution
Trading and Profit and loss Account for the year ended 31/12/2012

Sales			360,540 [**11**]
Less Cost of Sales			
Opening stock		19,000 [**2**]	
Purchases	(123,200 – 5,200)	118,000 [**7**]	
		137,000	
Closing stock		(21,400)[**2**]	(115,600)
Gross Profit			244,940
Less Expenses			
General expenses		83,000 [**5**]	
Insurance		6,300 [**6**]	
Interest		2,560 [**4**]	
Light and heat		5,910 [**6**]	97,770
			147,170
Add Income from Investment Fund			35 [**3**]
Net Profit			147,205 [**6**]

(b) Balance Sheet as at 31/12/2012

Intangible Fixed Assets	**€**	**€**	**€**
Goodwill			18,400 [**3**]
Tangible Fixed Assets			
Buildings		795,000 [**2**]	
Delivery Vans		27,400 [**1**]	
Furniture		18,000 [**2**]	840,400
Financial Assets			
Investment Fund			5,235 [**2**]
			864,035
Current Assets			
Stock		21,400 [**1**]	

Debtors		15,200 [**1**]	
Bank		114,150 [**5**]	
Cash		300 [**2**]	
Prepayments (Insurance)		1,700 [**3**]	
		152,750	
Creditors: amounts falling due within 1 year			
Creditors	29,400 [**1**]		
Interest due	950 [**3**]		
Electricity due	1480 [**1**]	(31,830)	120,920
			984955
Financed By			
Creditors: Amounts falling due after more than one year			
Loan			160,000 [**2**]
Capital		690,000 [**2**]	
Capital introduced		13,000 [**3**]	
Net Profit		147,205	
		850,205	
Less Drawings		(25,250)[**6**]	824,955
			984,955

14

(c)

8

(i) **Accounting concepts**

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

(ii) **Fundamental Accounting concepts**

Accruals, Going Concern, Consistency and Prudence

(iii) **The accruals Concept** – All expenses incurred in a particular period must be included in the accounts of that period regardless of whether they are paid or not. Similarly, all revenue income must be included in the accounts of that period whether received or not. E.g Electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Insurance prepaid should not be included in the current year's accounts as the payment refers to the following year.

Workings

1. **Sales** – Credit (51,000 + 15,200 – 22,000) 44,200
– Cash (126,000 + 85,800 + 93,200 + 11,440 + 300 – 400) 316,340
Total Sales **360540**
2. **Purchases**
Credit purchases (-28,200 + 29,400 + 28,800) 30,000
Cash purchases 93,200
Total Purchases 123,200
Less drawings of stock (5,200)
Total purchases **118000**
3. **General Expenses** (85,800 – 2,800) 83,000
4. **Insurance** (1,200 +6,800 – 1,700) 6,300
5. **Interest** (3,200 – 640) 2,560
6. **Light and heat** (6,400 + 1480 – 1,970) 5,910
7. **Drawings** (5,200 + 11,440 + 1,970 +560 + 6000) 25,250

Solution Q 7

Solution to Reyes Plc

1. Workings

Buildings

01/01/12	690,000		
Revaluation reserve	210,000		

Revaluation Reserve Account

		31/12/12	
		Buildings	210,000
		Acc. Dep	65,800

Acc Dep Buildings A/C.

31/12/12		01/01/12	
Revaluation Reserve	65,800	Bal b/d	52,000
		31/12/12	13,800*

- 2% of 690,000 = 13,800

This is an administration expense.
Remember, if depreciation and revaluation happen on the same date
- depreciate first
- revalue afterwards

The relevant figures now are

Buildings 690,000 + 210,000 = 900,000 (Tangible Assets)
Revaluation Reserve = 210,000 + 65,800= 275,800 (Financed By)

2.
Patents

$\frac{36,000}{8}$ = 4,500 of each year

We are told to include this figure in Cost of Sales.

Opening balance of 27,000 – 4,500
= 22,500 → Intangible Assets.

3.
Interest

70,000 x 8%	= 5,600	(Full year)
20,000 x 8% x 3/12	= 400	(Part year)
	6,000	(P+ L expense)
	- 4,000	(Paid)
	2,000	due (Creditors < 1 year)

4.
Investment Income

48,000 x 9% =	4,320	(Gain in P+L A/c)
	-3,500	(Received)
	820	due to us (Current Asset)

5.
Dividends

Ordinary Dividend Paid = 8,750
Preference Dividend Paid = 4,500

Ordinary Dividend Due = 10,500 (350,000 x 3c)
Preference Dividend Due = 4,500 (150,000 x 6% = 9,000
- 4,500 paid
4,500 due

6.

Table

	Cost of Sales	Distribution	Administration
Opening Stock	23,500		
Purchases	480,000		
Closing Stock	(24,400)		
Patents (W2)	4,500		
Depreciation (W1)			13,800
Admin Expenses			65,000
Salaries + Gen expenses			140,000
Rent			9,200
Advertising		18,700	
Directors Fees			10,000
Auditors Fees			6,200
	483,600	18,700	244,200

W7	Other Debtors	
	VAT	13,000
	Investment	
	Income due	820
		13,820

W8	Other Creditors	
	Directors fees due	10,000
	Auditors fees due	6,200
	Interest due	2,000
		18,200

Published Profit and Loss A/c for year ended 31.12.12

Turnover		740,000(2)
Cost of Sales (W6)		(483,600)(5)
Gross Profit		256,400
Distribution costs (W6)	18,700 (4)	
Administration expenses (W6)	244,200(6)	(262,900)
		(6,500)
Other operating income		
Discount received		14,200 (4)
Operating profit		7,700
Profit on sale of land		40,000(2)
Investment income (W4)		4.320(3)
		52,020
Interest payable		(6,000)(3)
		46,020
Profit on ordinary activities		
before taxation		(26,000)(1)
Taxation		20,020(2)
Dividends – paid	13,250(1)	
Proposed	15,000(1)	28,250
Loss retained for the year		(8,230)
Profits brought forward at 1/1/12		51,600(2)
Profits carried forward at 31/12/12		43,370(4)

Balance Sheet as at 31/12/12

Fixed assets Intangible assets Tangible fixed assets 9% investments		22,500(2) 900,000(2) 48,000 (1) 970,500
Current Assets Stock Trade debtors (30,000- 1,250) Other debtors (W7)	24,400(1) 28,750(3) 13,820(1) 66,970	
Creditor Amounts due in less than a year Trade creditors Other creditors (W8) Taxation Proposed dividends (W5) Bank Net current assets Total assets less current liabilities **Financed By** Creditors amounts due after falling 1 year **Capital and Reserves** Called up capital Revaluation reserve (W1) P+L Balance 31/12/12	 53,500(1) 18,200(2) 26,000(2) 15,000(2) 15,600(1) 128,300 90,000(2) 500,000(2) 275,800(3) 43,370(1)	 (61,330) 909,170 909,170

Notes.

Accounting policy note for tangible fixed assets and stock (4)

Buildings were revalued at the end of 31/12/12 and have been included in the accounts at their revalued amount. Depreciation is calculated in order to write off the cost or value of tangible fixed assets over their estimated useful economic life as follows.

Buildings – 2% per annum – straight line basis.
Stocks are valued on a first in first out basis at the lower of cost or net realisable value.

Operating Profit(4)

The operating profit is arrived at after charging:

Depreciation on Buildings	13,800
Amortisation of Patents	4,500
Directors fees	10,000
Auditors fees.	6,200

Interest Payable(2)

Interest payable on 8% debentures (20015/2016) including 20,000 received on 30/09/12 = 6,000

Dividends(5)

Ordinary Dividends		
Interim Paid 2.5c per share	= 8,750	
Final Proposed 3c per share	= 10,500	9,250
Preference Dividends		
Interim paid 3c per share	4,500	
Final proposed 3c per share	4,500	9,000

Tangible Fixed Assets(4)

Cost 01/01/12	760,000		
Disposal	(70,000)		
Transfer to revaluation	210,000		900,000
Depreciation 01/01/12		52,000	
Change for year	13,800		
Transfer to revaluation	(65,800)		Nil

Net value at 01/01/12708,000 (760000-52000)
Net value at 31-12-12 900,000

- (b) To assure shareholders of accounting accuracy
- To assure other stakeholders
- To advise the management
- To ensure company owns all listed assets

4x2

(c)

Unqualified report

- This is a clean report
- Financial statements give a true and fair view.

4 +3

Solution to Q. 8

			Per unit
Sales 90,000 @ 12		1,080,000	€12.00
Less: variable costs			
Direct materials	280,000		
Direct labour	346,000		
Factory overheads (1)	28,800		
Sales commission (5% of sales)	54,000	708,800	€7.875
Contribution		371,200	€4.125
Less: fixed costs			
Factory overheads (2)	43,200		
Selling expenses (without commission)	61,000		
Administration expenses	110,000	214,200	
Net Profit		157,000	

a)

Breakeven point (3+3+4)	=	Fixed costs / CPU	=	214200(3) / 4.125(3)
	=	**51928 units (4)**		
Margin of safety	=	budgeted sales	-	BEP
	=	90,000 (2)	-	51928 (1)
	=	**38072 units (2)**		

(b) Number of Units to increase profits by 20%

Net profit 2012 = 157,000

Increase in net profit 20% = 31,400

Net profit for 2013 188,400

Fixed Costs + Target Profit = [2] 214,200 + 188,400 [3] = [2] **97,600 units**
CPU 4.125[5]

(c) Profit if selling price dropped to €11 in 2013

Sales (105,000 x €11) 1,155,000 [4]

Less Variable costs (105,000 x €7.825) (821,625) [4]
Total Contribution (105,000 x €3.175) 333,375
Less Fixed costs 239,200 [4]
Profit 94,175 [2]

(d) The selling price to be charged

Net Profit €157,000 + (214,200 x 1.15)
= €403,330 (5)/90,000
= €4.481(2) + 7.275 (2)= €11.756(2)
Divided by .95 = €**12.37**(3)

(e) **The number of units that would provide a profit of 10% of the sales revenue from these units when the selling price is €15)**

Profit of 10% of €15

= €1.50

Formula

Fixed Costs
Contribution per unit –10% of selling price

New selling price means a new Variable Cost Per Unit

= €7.275 + (5% of €15)
= €8.025

<u>Remember that commission is 5% of sales value and our new sales value is €15</u>

New Contribution per unit =

€15– €8,025

= €6.975

€<u>214,200 (3)</u>

€6.975(7) – €1.50(3)

39,124 units

(f) 12

Limitations/assumptions: [7]
Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economies of scale **or** may increase because of increased costs.
It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range.
It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.
It is assumed that the selling price per unit is constant and does not allow for discounts.
Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.

Step Fixed Cost (5)
Step fixed costs are costs that are fixed within a certain range of activity but change outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

Solution to Q9

Production budget		Bronze		Silver
Budgeted sales	(2)	6000	(2)	5000
Add Closing stock	(2)	270	(2)	180
		6270		5180
Less opening stock	(3)	(300)	(3)	(200)
Budgeted Production		5970		4980

Materials usage budget

		Material A			Material B	
Bronze	(5970 x 4	23880	3	(5970 x 3	17910	3
Silver	(4980 x 7	34860	3	(4980 x 5	24900	3
Materials usage in kgs		58740	3		42810	3

Materials purchase budget

Material usages		58740		42810
Add budgeted closing stock	(2)	4500	(2)	4140
		63240		46950
Less budgeted opening stock	(1)	(5000)		(4600)
		)	(1	
Materials Purchases budget (kg)		58240		42350
Purchase price per kg	(2)	€2.30	(2) (	€2.50
Materials purchase budget €		133952		105875

Purchase of raw materials =	133952
	105875
	239827

Budgeted manufacturing A/c

Opening stock raw materials (5000x1.7 +4600x2.2)	18620	(2)	
+ Purchases of raw materials	239827	(1)	
	258447		
- closing stock of raw materials (4500 x2.3+4140 x 2.5)	20700	(3)	
Cost of raw materials used			237747
<u>Direct labour</u>			
Bronze (5970 x 4 x 12) =286560	(2)		
Silver (4980 x 5 x 12) = 298800		(1)	585360
Variable overheads			
Bronze (5970 x 4 x 4) =	95520 (2)		
Silver (4980 x 5 x 4)	99600 (1)		195120(2)
Fixed overheads			140000(2)
COST OF MANUFACTURE		(2)	1158227

Budgeted Trading A/c

Sales (6,000 x 140)			(1)	840000
(5000 x 170)			(1)	850000
			(1)	1690000
Less cost of sales				
Opening Stock 300 x 75	(3)	22500		
200 x 90 (3)		18000		
		40500		
+ cost of manufacture	(1)	1158227		
		1198727		
- closing stock 270 x 92 = 24840				

	180 x 123 = 22140 (***10)***	46980	
COST OF SALES			1151747
GROSS PROFIT		(3)	***538253***

Value of closing stock[Breakdown of the 10 awarded above]

	Bronze		Silver	
Mat A	4 x 2.30= 9.20	(1)	7 x 2.30 = 16.10	(1)
Mat B	3 x 2.5= 7.50	(1)	5 x 2.50 = 12.50	(1)
Labour	4 x 12 = 48.00	(1)	5 x 12 = 60.00	(1)
Variable o/h	4 x 4 =16.00	(1)	5 x 4 = 20.00	(1)
Fixed o/h	4 x **2.87** = 11.48	(1)	5 x **2.87** = 14.35	(1)
	= **92.18**		**= 122.95**	

$$\frac{\text{Fixed overheads}}{\text{Total hours}}$$

$$\frac{140{,}000}{5970 \times 4 + 4980 \times 5}$$

140000 / 48780 = ***2.87 per direct labour hour***