Leaving Certificate Accounting - Ordinary Level - 2006

Question 1

(a) 80

KILROY Ltd

Trading and Profit and Loss Account for the year ended 31 December 2005

	Total €	Sportswear €	Footwear €	Total €	Sportswear €	Footwear €
Sales less returns in (900,000 -1,000)				899,000 (5)	540,000 (3)	359,000 (3)
Less Cost of sales						
Stock 1/1/2005	101,000 (2)	63,000 (2)	38,000 (2)			
Add Purchases	460,000 (3)	320,000 (3)	140,000 (3)			
Add Carriage in	2,500 (2)	2,500 (2)				
	563,500	385,500	178,000			
Less Stock 31/12/2005	77,000 (2)	45,000 (2)	32,000 (2)	486,000	340,500	146,000
Gross profit				412,500	199,500	213,000
Less Expenses						
Administration						
Insurance (34,000 - 2,000)	32,000 (5)	24,000 (1)	8,000 (1)			
Salaries and general expenses	80,500 (3)	48,300 (1)	32,200 (1)			
Directors fees	50,000 (3)	30,000 (1)	20,000 (1)			
Light & heat	64,000 (3)	48,000 (1)	16,000 (1)			
Depreciation						
- Buildings	15,000 (3)	11,250 (1)	3,750 (1)			
	241,500	**161,550**	**79,950**			
Selling and Distribution						
Depreciation						
- Delivery vans	18,000 (3)	10,800 (1)	7,200 (1)			
	18,000	**10,800**	**7,200**	259,500	172,350	87,150
Operating profit				153,000	27,150	125,850
Less Debenture Interest				6,000 (4)	4,500 (1)	1,500 (1)
Net profit for year before tax				147,000	22,650	124,350
Profit and loss balance 1/1/2005				18,000 (2)		
Profit and loss balance carried forward 31/12/2005				165,000 (4)		

Question 1 - (*continued)*

(b) 40

Balance Sheet at 31 December 2005

	Cost	Accumulated Depreciation	Net
Tangible fixed assets	**€**	**€**	**€**
Buildings	500,000 (2)	50,000 (3)	450,000
Delivery vans	90,000 (2)	34,000 (3)	56,000
	590,000 (1)	84,000 (1)	506,000
Current assets			
Stock		77,000 (2)	
Insurance prepaid		2,000 (3)	
Cash		1,400 (2)	
Trade debtors		108,000 (2)	
		188,400	
Creditors: amounts falling due within one year			
Bank	5,600 (3)		
Trade creditors	146,200 (3)		
PAYE and PRSI	3,400 (3)		
VAT	8,200 (3)		
Debenture interest due	6,000 (3)	169,400	
Working capital			19,000
			525,000
Financed by			
Creditors: amounts falling due after more than one year			
10% Debentures			60,000 (2)
Capital and reserves	**Authorised**	**Issued**	
Ordinary shares at €1 each	400,000 (1)	300,000 (1)	
Profit and loss account		165,000	465,000
Capital employed			525,000

Question 2

(a) 15

Buildings Account

		€				€	
01/01/04	Balance b/d	570,000	(5)	01/05/04	Disposal	130,000	(2)
01/05/04	Bank	160,000	(3)	31/12/04	Balance c/d	600,000	
		730,000				730,000	
01/01/05	Balance b/d	600,000					
01/01/05	Rev. Reserve	200,000	(4)	31/12/05	Balance c/d	800,000	(1)
		800,000				800,000	
01/01/06	Balance b/d	800,000					

(b) 20

Provision for Depreciation on Buildings Account

		€				€	
01/05/04	Disposal	20,000	(3)	01/01/04	Balance b/d	76,000	(5)
31/12/04	Balance c/d	87,000		31/12/04	Profit & Loss	31,000	(3)
		107,000				107,000	
01/01/05	Rev. Reserve	87,000	(5)	01/01/05	Balance b/d	87,000	
31/12/05	Balance c/d	16,000	(1)	31/12/05	Profit & Loss	16,000	(3)
		103,000				103,000	
				01/01/06	Balance b/d	16,000	

(c) 15

Disposal of Buildings Account

		€				€	
01/05/04	Buildings	130,000	(4)	01/05/04	Provision -Depreciation	20,000	(4)
31/12/04	Profit & Loss	110,000	(3)	01/05/04	Bank	220,000	(4)
		240,000				240,000	

(d) 10

Revaluation Reserve Account

		€				€	
				01/01/05	Buildings	200,000	(5)
				01/01/05	Provision for depreciation	87,000	(5)

Question 3

(a) 20

Statement of Capital on 1/1/2005

	€		€	
Assets				
Buildings	710,000	(2)		
Furniture	12,800	(2)		
Motor car	44,000	(2)		
Amounts due from patients	360	(3)		
Medical equipment	8,000	(3)		
Cash at bank	25,000	(3)	800,160	
Less Liabilities				
Telephone due			1,400	(3)
Capital			798,760	(2)

(b) 40

Income and Expenditure (Profit and Loss) Account for Year ended 31/12/2005

		€		€	
Income					
Patients fees	**W 1**			191,540	(6)
Medical card scheme				97,800	(2)
				289,340	
Less Expenditure					
Telephone	**W 2**	6,200	(6)		
Electricity		12,900	(2)		
Receptionist's salary (36,000 + 400)		36,400	(4)		
Magazines		1,200	(2)		
Motor expenses		22,300	(2)		
Audit fees		2,600	(2)		
Relief doctor's salary		29,000	(2)		
Rates		4,600	(2)		
Insurance		23,000	(2)		
Depreciation - Car	**W 3**	4,400	(3)		
- Equipment	**W 4**	6,500	(3)	149,100	
Net Profit				140,240	(2)

Workings

1	**Patients fees -** amount received		190,200	
	Add amount due 31/12/2005		1,700	
	Less amount due 1/1/2005		(360)	191,540
2	**Telephone –**Amount paid		6,700	
	Add amount due 31/12/2005		900	
	Less amount due 1/1/2005		(1,400)	6,200
3	**Depreciation - Car**	10% of (44,000)		4,400
4	**Depreciation - Equipment**	25% of (8,000 + 18,000)		6,500

Question 4

(a) 35

Adjusted Bank Account

	€		€
Balance b/d	6,590 (6)	Dishonoured cheque – T. Black	540 (6)
Interest received	140 (6)	Bank Charges	55 (6)
		Standing Order	510 (6)
		Balance c/d	5,625 (5)
	6,730		6,730
Balance b/d	5,625		

(b) 25

Bank Reconciliation Statement

		€	€
Balance as per Bank Statement			5,795 (3)
Add Unrecorded Lodgements			2,900 (5)
Error – M. Mooney			360 (6)
			9,055
Less Cheques not presented	No 200103	870 (3)	
	No 200106	1,940 (3)	
	No 200107	620 (3)	3,430
Balance as per adjusted Bank account			5,625 (2)

(b) Alternative

Bank Reconciliation Statement

		€	€
Balance as per adjusted Bank account			5,625 (2)
Add Cheques not presented	No 200103	870 (3)	
	No 200106	1,940 (3)	
	No 200107	620 (3)	3,430
			9,055
Less Unrecorded Lodgements		2,900 (5)	
Less Bank error – M. Mooney		360 (6)	3,260
Balance as per Bank Statement			5,795 (3)

Question 5

(a) 40

(i) **Opening Stock** 800,00 - 240,000 + 62,000 – 564,000 = €58,000 (10)

(ii) **Period of credit given to Debtors**

Debtors x 365 / Credit Sales	=	56,000 x 365 / 800,000	=	26 days (10) 0.84 months

(iii) **Return on Capital Employed**

Operating profit x 100 / Capital employed	=	(197,000 +20,000) x 100 / 948,000	=	22.9% (10)

(iv) **Acid Test Ratio**

Liquid Assets / Current liabilities	=	118,000 / 72,000	=	1.64 to 1 (10)

(b) 40

(i) **8% Debentures (2009/2011):** Debentures are long-term loans. The fixed annual rate of interest is 8%. The loan must be repaid in full during the years 2009 to 2011. Normally assets are pledged to the lender up to the value of the loan. (10)

(ii) **Preference Dividend:**
This is the portion of profits paid to Preference shareholders. It is a fixed percentage and must be paid before the ordinary dividend. Preference shareholders are not the owners of the company, they are a source of finance only. If a dividend is not paid in any year it accumulates and is paid when profits are available. (10)

(iii) **Interest:** This is the rent (extra charge) paid for the use of money (10)

(iv) Rate of Stock Turnover: This is the number of times during the year that the average stock is sold. The higher this figure is the better. It is calculated by dividing the Cost of Sales by the average Stock. (10)

(c) 10

In 2004 the current ratio was 1.8 to 1 and the liquid ratio was 1.2 to 1. This is considered to be good. In 2005 the company is more liquid as both ratios of 2.5 to 1 and 1.64 to 1 are more favourable when compared to business norms and indicates that the company is capable of paying it's short-term debts. In 2005 the company had €1.64 available immediately for each €1 owed. The above firm would **not** have any difficulty paying its debts

(d) 10

Businesses take risks and for this they expect to earn more than they could get by investing their money in risk-free securities. The Return on Capital Employed for 2005 is 22.9 %. This has improved from 14% in 2004. The return currently available from banks and building societies is less than 5% so the company is performing well and is considered profitable

Question 6

(a) 30

Creditors Control Account

2005		**€**	**2005**		**€**
31 Dec	Cash paid	25,200 (3)	1 Jan	Balance b/d	6,400 (3)
	Balance c/d	7,300 (3)	31 Dec	****Credit Purchases***	26,100
		32,500			32,500

Debtors Control Account

2005		**€**	**2005**		**€**
1 Jan	Balance b/d	4,900 (3)	31 Dec	Cash	48,200 (3)
	****Credit Sales***	48,500 (3)		Balance c/d	5,200
		53,400			53,400

Total Sales	**€**	**Total Purchases**	**€**
Credit sales	48,500 (3)	Credit purchases	26,100 (3)
Cash sales	96,000 (3)	Cash purchases	28,500 (3)
Total sales	144,500	Total purchases	54,600

(b) 30

Trading and profit and Loss Account for year ended 31 December 2005

		€	**€**
Sales			144,500 (3)
Less Cost of goods sold			
Stock at 1 January 2005		10,400 (2)	
Add purchases		54,600 (3)	
		65,000	
Less Stock at 31 Dec. 2005		8,700 (2)	56,300
Gross profit			88,200
Less Expenses			
Wages and general expenses	**W 1**	22,930 (6)	
Rates		3,200 (3)	
Depreciation – Delivery Vans		8,750 (3)	34,880
			53,320
Add			
Commission received			3,900 (5)
Net profit			57,220 (3)

Question 6 - *(continued)*

(c)

40

Balance Sheet at 31 December 2005

Fixed Assets		**€**	**€**	**€**
Premises		680,000 (3)		680,000
Delivery Vans		35,000 (3)	8,750 (2)	26,250
Furniture		14,300 (3)		14,300
		729,300	8,750	720,550
Current Assets				
Stock		8,700 (3)		
Trade debtors		5,200 (3)		
Bank		45,500 (3)		
			59,400	
Less Creditors: amounts falling due within 1 year.				
Trade creditors		7,300 (3)		
Expenses due		740 (3)	8,040	
Net Current assets				51,360
Total Assets less current liabilities				771,910
Financed by				
Capital				
Balance at 1 Jan 2005	**W 2**		726,090 (9)	
Add Net profit			57,220 (2)	
			783,310	
Less Drawings			11,400 (3)	771,910
Capital employed				771,910

Workings

1	**Wages and General expenses paid**	22,800	
	Less Expenses due 1 Jan. 2005	(610)	
	Add Expenses prepaid 31 Dec 2005	740	22,930

2	**Capital at 1 January 2005**		
	Assets		
	Buildings	680,000	
	Delivery vans	35,000	
	Cash	2,800	
	Stock	10,400	
	Debtors	4,900	733,100
	Less Liabilities		
	Creditors	6,400	
	Expenses due	610	7,010
	Capital at 1 January 2005		726,090

Question 7

(a) 30

Reconciliation of Operating Profit to net cash flow.

	€
Operating profit	134,000 (3)
Depreciation	22,000 (6)
Increase in Stock	(28,000) (6)
Decrease in Debtors	9,000 (6)
Increase in Creditors	18,000 (6)
Net Cash inflow from operating activities	155,000 (3)

(b) 65

Cash Flow Statement of Welenza Ltd for the year ended 31/12/2005

			€
Operating Activities	(2)		
Net cash inflow from operating activities			155,000 (2)
Return on investments and servicing of finance	(2)		
Interest paid			(12,000) (8)
Taxation	(2)		
Tax paid			(11,000) (8)
Capital Expenditure and Financial Investment	(2)		
Purchase of land/buildings			(170,000) (8)
Equity / Ordinary Dividends paid	(2)		
Dividends paid			(26,000) (8)
Net cash outflow before liquid resources and financing			**(64,000)**
Financing	(2)		
Issue of ordinary share capital		40,000 (8)	
Receipts from debenture loan		30,000 (8)	70,000
Increase in cash			(3) **6,000**

(c) 5

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period		6,000 (2)
Cash receipt from debentures		(30,000) (1)
Change in net debt		(24,000) (1)
Net debt at 1/1/2005	(120,000 – 8,000)	(112,000) (1)
Net debt at 31/12/2005		(136,000)

Question 8

80

(a)	**Selling Price per unit**	**=**	$\frac{600,000}{30,000}$	=	**€20 per unit** (5)
(b)	**Fixed cost per unit**	**=**	$\frac{48,000}{30,000}$	=	**€1.60 per unit** (5)
(c)	**Variable cost per unit**	**=**	$\frac{180,000}{30,000}$	=	**€6 per unit** (5)

(d) Contribution per unit

Selling price	20.00		
Less Variable cost	6.00		
Contribution	**14.00**	=	**€14 per unit** (10)

(e)	**Break-even point** in units	=	$\frac{48,000}{€14}$	=	**3,429** units (10)
				=	**€68,580** (5)
(f)	**Margin of safety**	**=**	30,000 – 3,429	=	**26,571 units** (10)
					€531,420 (10)

(g) Level of sales required

$$\frac{\text{Fixed cost} + \text{target profit}}{\text{Contribution Per Unit}} = \frac{48,000 + 160,000}{€14}$$

= 14,857.14 = **14,858 units** (20)

Question 9

80

(a)

Cash Budget

		June	July	August	Sept	Oct
Receipts						
Debtors	- April	73,000 (4)				
	- May		48,000 (4)			
	- June			83,000 (4)		
	- July				76,000 (4)	
	- August					**97,000** (4)
		73,000	**48,000**	**83,000**	**76,000**	**97,000**
Payments						
Creditors	- May	55,000 (4)				
	- June		44,000 (4)			
	- July			70,000 (6)		
	- August				43,000 (2)	
	- September					58,000 (4)
	- Expenses	15,000 (3)	17,000 (3)	14,000 (3)	18,000 (3)	20,000 (3)
		70,000	**61,000**	**84,000**	**61,000**	**78,000**
Net monthly cash flow		3,000 (2)	(13,000) (2)	(1,000) (2)	15,000 (2)	19,000 (2)
Opening bank balance		(22,000) (2)	(19,000) (1)	(32,000) (1)	(33,000) (1)	(18,000) (1)
Closing bank balance		**(19,000)** (1)	**(32,000)** (1)	**(33,000)** (1)	**(18,000)** (1)	**1,000**

(b)

Her monthly surplus/deficit (5)
She can predict overdraft requirements over the period
No overdraft required by the end of October