Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2008

MARKING SCHEME

ACCOUNTING

ORDINARY LEVEL

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Ordinary Level Marking Scheme

INTRODUCTION

The solutions and marking scheme for Accounting Ordinary Level are attached.

Marks allocated to each line/figure are highlighted and shown in brackets like this **[6]** alongside.

These marks are then totalled for each section/page and shown in a square like this **40**

Accounting solutions are mainly computational and most figures are made up of more than one component. If a figure is not as per the solution, the examiners analyse the make-up of the candidate's figure and allocate some marks for each correct element included. To facilitate this, where relevant, the make-up of the figures is shown in workings attached to the solution.

In some Accounting questions there can be a number of alternative approaches and formats that can be validly used by candidates (eg A Bank Reconciliation Statement can start with either the bank statement figure or the adjusted bank account balance). The solutions provided here are based on the approaches adopted by the vast majority of teachers/candidates and alternatives are not included. In cases where a valid alternative solution is required, it is provided for the examiners, so that full marks can be gained for correct accounting treatment.

Sometimes the solution to a part of a question may depend on the answer computed in another part of that question. Where a calculation in section (a) is incorrect, allowance is made for this in subsequent sections.

Accounting Ordinary Level Marking Scheme

Question 1

40

Manufacturing Account of Casey Ltd for the year ended 31/12/2007

					€	
Stock - Raw materials 1/1/2007					58,000	[3]
Add Purchase -Raw materials					344,000	[2]
					402,000	
Less Stock - Raw materials 31/12/2007					(49,000)	[3]
Cost of raw materials consumed					353,000	
Add Factory wages (75% of 130,000)	**(W1)**				97,500	[4]
Add Direct expenses					38,000	[2]
Prime Cost		[1]			488,500	
Add Factory Overhead Expenses						
Factory supervisor's wages			32,500	[2]		
Factory insurance	**(W2)**		13,500	[4]		
Factory light & heat			43,400	[2]		
Depreciation - Plant & Machinery			88,000	[3]		
Depreciation - Factory Buildings			18,000	[3]	195,400	
Factory cost					683,900	
Add Work in progress 1/1/2007					33,000	[3]
					716,900	
Less Work in progress 31/12/2007					(23,000)	[3]
					693,900	
Less Sale of scrap materials					(8,000)	[3]
Cost of manufacture					685,900	
Profit on manufacture					14,100	[1]
Transfer to Trading a/c at Current Market Value					700,000	[1]

Question 1

40

Trading, Profit and Loss Account of Casey Ltd for the year ended 31/12/2007

						€	
Sales						980,000	[6]
Less Sales returns						(3,400)	[2]
						976,600	
Less Cost of sales							
Opening stock of finished goods				64,000	[3]		
Add Cost of manufacture at market value				700,000	[1]		
				764,000			
Less closing stock of finished goods				(74,000)	[3]		
Cost of sales						(690,000)	
Gross Profit						286,600	[1]
Add manufacturing Profit						14,100	[1]
						300,700	
Less Expenses							
Administration [1]							
Stationery	5,400	[3]					
Directors fees	36,000	[3]	41,400				
Selling & Distribution [1]							
Advertising	7,000	[3]					
Depreciation - Delivery van 10% of Book Value	6,800	[3]	13,800				
Total Expenses						(55,200)	
Operating Profit						245,500	
Less Debenture interest **(W3)**						(15,000)	[2]
Net Profit for this year						230,500	
Less Taxation						(12,000)	[2]
						218,500	
Add Profit & Loss Balance 1/1/2007						87,000	[1]
Profit and Loss Balance at 31/12/2007						305,500	[4]

Workings

(W1)	**Factory wages:**	€130,000 – 32,500	=	€97,500
(W2)	**Factory Insurance:**	€18,000 – 4,500	=	€13,500
(W3)	**Debenture Interest:**	10% of €200,000 x 9 months	=	€15,000

Question 1 - continued

40

Balance Sheet of Casey Ltd as at 31/12/2007

Intangible Assets				**€**
Patents				75,000 [2]
		Accumulated		
Fixed Assets	**Cost**	**Depreciation**	**Net**	
	€	**€**	**€**	
Plant & machinery	440,000 [1]	148,000 [2]	292,000 [1]	
Delivery vans	92,000 [1]	30,800 [2]	61,200 [1]	
Factory buildings	600,000 [1]	18,000 [2]	582,000 [1]	
	1,132,000	196,800	935,200	935,200
				1,010,200
Current Assets				
Closing Stocks:				
Raw materials		49,000 [2]		
Work in progress		23,000 [2]		
Finished goods		74,000 [2]	146,000	
Debtors		41,600 [2]		
Less provision of bad debts		2,800 [2]	38,800	
Insurance prepaid			4,500 [2]	
			189,300	
Less Creditors: amounts falling due within 1 year				
Creditors		29,500 [2]		
Taxation		12,000 [2]		
VAT		10,200 [2]		
Bank		27,300 [2]		
Debenture interest due		15,000 [2]	(94,000)	
Working Capital				95,300
Total Net Assets				1,105,500
Financed by				
Creditors: amounts falling due after more than 1 year				
10% Debentures				200,000 [2]
Capital and Reserves		**Authorised**	**Issued**	
Ordinary shares @ €1 each		800,000 [1]	600,000 [1]	
Profit & Loss Balance 31/12/2007			305,500	905,500
				1,105,500

Question 2

(a) **35**

Profit and Loss Account of Morgan Ltd for the year ended 31/12/2007

			€	
Net Profit for year			210,000	[2]
Less Interest			(15,000)	[5]
Less Taxation			(47,000)	[5]
Profit after taxation			148,000	
Less: Appropriations				
General Reserve	25,000	[5]		
Ordinary Dividend 12c per share	48,000	[5]		
Preference Dividend for full year	10,000	[5]	(83,000)	
Retained profit for year			65,000	
Retained Profit 1/1/2007			180,000	[5]
Retained Profits carried forward 31/12/2007			245,000	[3]

(b) **25**

Balance Sheet extract as at 31/12/2007

	€		€		€
Fixed assets/Current assets					1,017,000
Less: Creditors: amount falling due within 1 year [1]					
Interest due			15,000	[4]	
Taxation due			47,000	[4]	(62,000)
					955,000
Financed by:					
Capital and reserves [1]	**Authorised**		**Issued**		
Share Capital					
Ordinary Shares of €1 each	800,000	[1]	400,000	[2]	
5% Preference Shares of €1 each	300,000	[1]	200,000	[2]	
	1,100,000		600,000	[1]	
General Reserve			110,000	[4]	
Profit and loss balance			245,000	[4]	
Shareholders Funds					955,000
					955,000

Question 3

(a) **35**

Adjusted Bank Account

	€			€	
Balance b/d	16,075	[6]	Dishonoured cheque – M. Feeney	730	[6]
Interest received	200	[6]	Standing Order	160	[6]
			Bank Charges	33	[6]
			Balance c/d	15,352	[5]
	16,275			16,275	
Balance b/d	15,352				

(b) **25**

Bank Reconciliation Statement

				€	
Balance as per Bank Statement				14,467	[3]
Add: Unrecorded Lodgements				1,960	[5]
Error – M. Clarke				500	[7]
				16,927	
Less: Cheques drawn not yet presented	No 300104	275	[4]		
	No 300106	1,300	[4]	(1,575)	
Balance as per Adjusted Bank Account				15,352	[2]

(b) Alternative

Bank Reconciliation Statement

				€	
Balance as per Adjusted Bank Account				15,352	[2]
Add: Cheques not presented	No 300104	275	[4]		
	No 300106	1,300	[4]	1,575	
				16,927	
Less: Unrecorded lodgements		1,960	[5]		
Bank error – M. Clarke		500	[7]	(2,460)	
Balance as per Bank Statement				14,467	[3]

Question 4

60

Tabular Statement

Assets	**Oct 1**	**Oct 3**	**Oct 7**	**Oct 9**	**Oct 11**	**Oct 15**	**Oct 21**	**Oct 25**	**Oct 28**	**Totals**
Buildings	330,000 [2]								+170,000 [2]	500,000
Motor Vehicles	105,000 [2]									105,000
Stock	33,000 [2]		+12,800 [2]			(11,300) [2]				34,500
Debtors	36,200 [2]	(2,500) [2]				+14,500 [2]	(800) [2]			47,400
Bank	22,700 [2]	+2,300 [2]		(1,900) [2]	(6,000) [2]		+160 [2]	(1,700) [2]	(10,000) [2]	5,560 [1]
Total	**526,900**	**(200)**	**+12,800**	**(1,900)**	**(6,000)**	**+3,200**	**(640)**	**(1,700)**	**+160,000**	**692,460**

Liabilities	**Oct 1**	**Oct 3**	**Oct 7**	**Oct 9**	**Oct 11**	**Oct 15**	**Oct 21**	**Oct 25**	**Oct 28**	**Totals**
Capital	496,000 [2]	(200) [2]			300 [2]	+3,200 [2]	(640) [2]			498.660 [1]
Drawings								(1,700) [2]		(1,700)
Profit/Loss										
Creditors	29,000 [2]		+12,800 [2]		(6,300) [2]					35,500
New Finance Ltd.									+160,000 [2]	160,000
Expenses due	1,900 [2]			(1,900) [2]						
Total	**526,900**	**(200)**	**+12,800**	**(1,900)**	**(6,000)**	**+3,200**	**(640)**	**(1,700)**	**+160,000**	**692,460**

Question 5

100

(a) **(i)** **Opening Stock** (610,000 + 63,000 – 620,000) € 53,000 [10]

(ii) **Period of credit received from Creditors**

$$\frac{\text{Creditors x 365}}{\text{Credit Purchases}} = \frac{35{,}600 \times 365}{620{,}000} = \text{21 days [10]}$$

0.7 months

(iii) **Return on Capital Employed**

$$\frac{\text{Operating profit x 100}}{\text{Capital employed}} = \frac{(130{,}000 + 24{,}000) \times 100}{903{,}000} = 17.05\% \text{ [10]}$$

(iv) **Acid Test Ratio**

$$\frac{\text{Current Assets - Closing stock.}}{\text{Current Liabilities}} = \frac{93{,}000}{73{,}000} = 1.27 : 1 \text{ [10]}$$

(b)

(i) **8% Debentures (2011/2012)**
Debentures are Long-term Loans. The fixed annual rate of interest is 8%. [10]
Loan must be repaid in one lump sum during the years 2011/2012.

(ii) **Interest Paid:**
This is the rent [extra cost] paid for the use of money borrowed from a financial institution [10]

(iii) **Liquid Assets:**
These are current assets [items of value] that can be turned into cash quickly. Liquid Assets are made up of cash/ bank and debtors. They are current assets excluding stock. [10]

(iv) **Shareholders' Funds**
The amount owed to the shareholders by a company. It is the issued capital plus reserves. [10]

(c) **No.** The Return on Capital Employed for 2007 is 17.05%. The return currently available from banks and building societies is less than 5% so the company is performing well and therefore would not have fared better if it had sold out and invested in a financial institution. [10]

(d) The liquidity of Walsh Ltd has improved. Walsh Ltd would **not** have difficulty paying its debts because it has an Acid Test Ratio of 1.27 to 1. This means that the firm has €1.27 available immediately for each €1 owed. This is better than the accepted norm of 1 to 1. Perhaps it could invest some of the idle cash. [10]

Question 6

(a) **30**

Creditors Control Account

2007		**€**		**2007**		**€**	
31 Dec	Cash paid	57,400	[3]	1 Jan	Balance b/d	8,700	[3]
	Balance c/d	4,900	[3]	31 Dec	***Credit Purchases**	53,600	
		62,300				62,300	

Total Purchases	**€**	
Credit purchases	53,600	
Cash purchases	92,200	[3]
Total purchases	145,800	[3]

Debtors Control Account

2007		**€**		**2007**		**€**	
1 Jan	Balance b/d	10,400	[3]	31 Dec	Cash	78,200	[3]
	***Credit Sales**	77,400		Balance c/d		9,600	[3]
		87,800				87,800	

Total Sales	**€**	
Credit sales	77,400	
Cash sales	205,000	[3]
Total sales	282,400	[3]

(b) **30**

Trading and profit and Loss Account for year ended 31 December 2007

		€		**€**	
Sales				282,400	[2]
Less Cost of goods sold					
Stock at 1 January 2007		12,300	[3]		
Add purchases		145,800	[2]		
		158,100			
Less Stock at 31 Dec. 2007		(14,200)	[3]	(143,900)	
Gross profit				138,500	
Add Commission received				4,500	[6]
				143,000	
Less Expenses					
Wages and general expenses	**W 1**	74,380	[6]		
Depreciation – Delivery Vans		13,600	[4]		
				(87,980)	
Net Profit				55,020	[4]

Question 6

(c) **40**

Balance Sheet at 31 December 2007

	€		€		€	
Fixed Assets						
Premises	840,000				840,000	[3]
Delivery Vans	68,000	[2]	13,600	[1]	54,400	[3]
Equipment	4,600				4,600	[3]
	912,600		13,600		899,000	
Current Assets						
Stock	14,200	[3]				
Trade debtors	9,600	[3]				
Bank	58,300	[3]				
			82,100			
Less Creditors: amounts falling due within 1 year.						
Trade creditors	4,900	[3]				
Accruals (Expenses)	600	[3]	(5,500)			
Net Current assets					76,600	
Total Assets less current liabilities					975,600	
Financed by						
Capital						
Balance at 1 Jan 2007 **W 2**			928,780	[8]		
Add Net profit			55,020	[1]		
			983,800			
Less Drawings			(8,200)	[4]	975,600	
Capital employed					975,600	

Workings

1 Wages and General expenses paid	74,300		
Less Expenses due 1 Jan. 2007	(520)		
Add Expenses prepaid 31 Dec 2007	600	€74,380	

2 Capital at 1 January 2007			
Assets			
Buildings	840,000		
Delivery vans	68,000		
Debtors	10,400		
Stock	12,300		
Bank	7,300	938,000	
Less Liabilities			
Creditors	8,700		
Expenses due	520	(9,220)	
Capital at 1 January 2007			€928,780

Question 7

(a) **30**

Reconciliation of Operating Profit to net cash flow.

	€	
Operating profit	110,000	[6]
Depreciation	5,000	[6]
Increase in Stock	(8,000)	[6]
Increase in Debtors	(12,000)	[6]
Increase in Creditors	1,000	[6]
Net Cash inflow from operating activities	96,000	

(b) **65**

Cash Flow Statement of Milano Ltd for the year ended 31/12/2007

				€	
Operating Activities	[2]				
Net cash inflow from operating activities				96,000	[4]
Return on investments and servicing of finance	[2]				
Interest paid				(7,000)	[8]
Taxation	[2]				
Tax paid				(26,000)	[8]
Capital Expenditure and Financial Investment	[2]				
Purchase of land/buildings				(40,000)	[8]
Equity / Ordinary Dividend paid	[2]				
Dividend paid				(31,000)	[8]
Net cash outflow before liquid resources and financing				**(8,000)**	
Financing					
Issue of ordinary share capital	[2]	30,000	[6]		
Receipts from debenture loan		10,000	[6]	40,000	
Increase in cash				**32,000**	[5]

(c) **5**

Reconciliation of Net Cash flow to movement in Net Debt

Increase in cash in the period	32,000	[1]
Cash receipt from debentures	(10,000)	[1]
Change in net debt	22,000	[1]
Net debt at 1/1/2007	(84,000)	[1]
Net debt at 31/12/2007	(62,000)	[1]

Net debt at 1/1/2007	(90,000 – 6,000)	=	84,000
Net debt at 31/12/2007	(100,000 – 38,000)	=	62,000

Question 8

80

(a) Contribution per unit

Selling price	15.00 [6]			
Less Variable cost	10.00 [6]			
Contribution	**5.00**	=	[3]	**€5 per unit**

(b) Break-even point in units = $\frac{35,000\ [8]}{€5\ [5]}$ = [2] **7,000 units**

[2] 7,000 x €15[5] = [1] **€105,000**

(c) Margin of safety = [5] 12,000 – 7,000 [2] = [1] **5,000 units**

5,000 x €15 [4] **€75,000**

(d) Marginal Costing Statements

Production levels	**6,600 units**		**7,700 units**		**8,800 units**	
Sales	99,000	[1]	115,500	[1]	132,000	[1]
Less Variable cost	(66,000)	[1]	(77,000)	[1]	(88,000)	[1]
Contribution	33,000	[1]	38,500	[1]	44,000	[1]
Fixed cost	(35,000)	[1]	(35,000)	[1]	(35,000)	[1]
Profit/Loss in €	**(2,000)**	[1]	**3,500**	[1]	**9,000**	[1]

(e) Level of sales required

$\frac{\text{Fixed cost + target profit}}{\text{Contribution Per Unit}}$ = $\frac{[3]\ 35,000 + 30,000\ [3]}{€5\ [3]}$

= 13,000 = [3] **13,000 units**

= 13,000 x €15 = [3] **€195,000**

Question 9

80

(a)

Sales Budget

	Redline		Blueline	
Budgeted quantities	1,400	[4]	900	[4]
Budgeted selling price	€190	[4]	€280	[4]
Budgeted Sales Value	**€266,000**	[1]	**€252,000**	[1]

(b) **Production Budget**

	Redline		Blueline	
Budgeted sales	1,400	[2]	900	[2]
Add budgeted closing stock	275	[2]	70	[2]
	1,675		970	
Less budgeted opening stock	(340)	[2]	(160)	[2]
Budgeted Production in units	1,335	[2]	810	[2]

(c) **Materials Usage Budget**

			Material X		Material Y	
Redline	(1,335 x 18 gms)	[3]	24,030 gms	[3]	14,685 gms	(1,335 x 11 gms)
Blueline	(810 x 15gms)	[3]	12,150 gms	[3]	11,340 gms	(810 x 14 gms)
Budgeted material usage		[2]	36,180 gms	[2]	26,025 gms	

(d) **Material Purchases Budget**

	Material X		Material Y	
Budgeted Material Usage in gms	36,180	[2]	26,025	[2]
Add Budgeted Closing stock	410	[3]	360	[3]
	36,590		26,385	
Less Budgeted Opening stock	(370)	[3]	(290)	[3]
Material Purchases Budget in gms	36,220		26,095	
Budgeted Purchase price per gm	€13	[1]	€17	[1]
	€470,860	[1]	€443,615	[1]

(e) **Labour Budget**

Redline (Production x Labour hrs per unit) (1,335 units x 5 hrs)	6,675	[4]
Blueline (Production x Labour hrs per unit) (810 units x 8 hrs)	6,480	[4]
Budgeted direct labour hours	13,155	
Labour rate per hour	€12	[2]
Direct labour budget in €'s	€157,860	

Alternative (e) **Labour Budget**

		Redline		Blueline	
Budgeted Production	[1]	1,335	[1]	810	
Labour hrs per unit	[2]	5 hrs	[2]	8 hrs	
	[1]	6,675 hrs	[1]	6,480 hrs	
Labour Rate per hour	[1]	€12	[1]	€12	
Budgeted labour/ cost		€80,100		€77,760	€157,860