Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2017

Marking Scheme

Accounting

Ordinary Level

Note to teachers and students on the use of published marking schemes

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In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

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Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

State Examinations Commission
Coimisiún na Scrúduithe Stáit

LEAVING CERTIFICATE EXAMINATION 2017

A C C O U N T I N G - O R D I N A R Y L E V E L
(400 marks)

Suggested Solutions and Marking Scheme

1. Final Accounts of a Manufacturing Company

40

(a)

Manufacturing Account of Kelly Ltd for year ended 31/12/2016 [1]				
Stock of raw materials 01/01/2016			45,000	[3]
Purchase of raw materials			360,500	[2]
			405,500	
Less stock of raw materials 31/12/2016			(35,000)	[3]
Cost of raw materials consumed			370,500	
Add factory wages			112,000	[4]
Add direct expenses			15,000	[2]
PRIME COST [1]			497,500	
Add Factory Overhead Expenses				
Factory supervisor's wages	28,000	[2]		
Factory insurance	19,000	[2]		
Factory light and heat	14,200	[3]		
Depreciation factory equipment	52,500	[3]		
Depreciation factory building	28,200	[3]		
Total expenses			141,900	
Factory Cost			639,400	
Add work-in-progress 01/01/2016			15,400	[3]
			654,800	
Less work-in-progress 31/12/2016			(22,000)	[3]
			632,800	
Less sale of scrap materials			(7,400)	[3]
COST OF MANUFACTURE			625,400	[2]

(b) **40**

Trading Profit and Loss Account of Kelly Ltd for the year ended 31/12/2016 [1]						
Sales					857,000	[3]
Less sales returns					(11,000)	[3]
					846,000	
Less cost of sales						
Opening stock			63,500	[4]		
Cost of manufacture			625,400	[1]		
			688,900			
Closing stock			(60,000)	[4]		
Cost of sales					(628,900)	
Gross Profit					217,100	[1]
Less Expenses						
Administration [1]						
Stationery	8,300	[4]	8,300			
Selling and Distribution [1]						
Advertising	6000	[3]				
Depreciation motor vehicles	5000	[3]	11,000		(19,300)	
Operating profit					197,800	
Less debenture interest					(12,000)	[3]
Net profit for the year					185,800	
Less taxation					(16,000)	[3]
					169,800	
Add profit and loss balance 01/01/2016					65,000	[2]
Profit and loss balance at 31/12/2016					234,800	[3]

(c)

Balance Sheet of Kelly Ltd as at 31/12/2016						
	Cost		Depreciation		N.B.V.	
	€		€		€	
Intangible Assets						
Patents					60,000	[2]
Fixed Assets						
Factory buildings	705,000	[1]	28,200	[1]	676,800	[1]
Factory equipment	350,000	[1]	152,500	[2]	197,500	[1]
Delivery vans	72,000	[1]	27,000	[2]	45,000	[1]
	1,127,000		202,700		919,300	
					979,300	
Current Assets						
Closing Stocks: raw materials	35,000	[2]				
work-in-progress	22,000	[2]				
finished goods	60,000	[2]	117,000			
Stock of stationery			700	[2]		
Debtors	82,000	[2]				
Less bad debt provision	3,500	[1]	78,500			
Advertising prepaid			2,000	[2]		
			198,200			
Creditors: amounts falling due within 1 year						
Creditors	85,000	[2]				
Corporation tax	16,000	[2]				
VAT	14,500	[2]				
Bank	55,200	[2]				
Debenture interest due	12,000	[2]	(182,700)			
					15,500	
					994,800	
Financed by						
Creditors: amounts falling due after 1 year						
10% Debentures					160,000	[2]
Capital and Reserves	**Authorised**		**Issued**			
Ordinary share capital	800,000	[1]	600,000	[1]		
Profit and loss 31/12/2016			234,800		834,800	
Capital employed					994,800	

2. Depreciation and Revaluation of Fixed Assets

(a) **[15]**

Buildings Account

		€				€	
01/01/2015 [1]	Balance b/d	650,000	[2]	01/07/2015	Disposal	100,000	[2]
01/06/2015	Bank	120,000	[4]	31/12/2015	Balance c/d	670,000	
		770,000				770,000	
01/01/2016	Balance b/d	670,000		31/12/2016	Balance c/d	750,000	[1]
01/01/2016	Revaluation	80,000	[4]				
		750,000				750,000	
01/01/2017	Balance b/d	750,000	[1]				

(b) **[20]**

Provision for Depreciation on Buildings Account

		€				€	
01/07/2015	Disposal	40,000	[3]	01/01/2015	Balance b/d	56,000	[4]
31/12/2015	Balance c/d	48,000	[1]	31/12/2015	P & L Dep.	32,000	[4]
		88,000				88,000	
01/01/2016	Revaluation	48,000	[3]	01/01/2016	Balance b/d	48,000	
31/12/2016	Balance c/d	22,500	[1]	31/12/2016	P & L Dep.	22,500	[3]
		70,500				70,500	
				01/01/2017	Balance b/d	22,500	[1]

(c) **[15]**

Disposal of Buildings Account

		€				€	
01/07/2015	Buildings	100,000	[4]	01/07/2015	Bank	85,000	[4]
	Profit on Disposal	25,000	[3]		Prov. for Dep.	40,000	[4]
		125,000				125,000	

(d) **[10]**

Revaluation Reserve Account

		€			€	
			01/01/2016	Buildings	80,000	[5]
			01/01/2016	Prov. for Dep.	48,000	[5]
					128,000	

3. Incomplete Records – Net Worth

(a) Statement of Net Worth/Capital 01/01/2016 **[30]**

Assets	€		€	
Premises	460,000	[3]		
Furniture and equipment (64000 - 17800)	46,200	[6]		
Motor vehicles	58,200	[3]		
Stock	65,400	[2]		
Debtors	29,000	[3]		
Insurance prepaid	900	[3]	659,700	
Liabilities				
Creditors	16,100	[3]		
Expenses due	3,600	[2]		
Bank overdraft	7,300	[3]	(27,000)	
Capital/Net Worth 01/01/2016			632,700	[2]

(b) Statement of Profit/Loss for year ended 31/12/2016 **[30]**

Assets				990,000	[3]
Less	Depreciation furniture and equipment	12,800	[3]		
	Depreciation motor vehicles	5,820	[3]	(18,620)	
				971,380	
Less liabilities					
	Liabilities	92,000	[3]		
	Expenses due	870	[3]	(92,870)	
Net worth 31/12/2016				878,510	
Less net worth 01/01/2016				(632,700)	[1]
Apparent profit for the year				245,810	
Less capital Introduced				(18000)	[5]
				227,810	
Add	Drawings	8,600	[3]		
	Stock	6,000	[3]	14,600	
Net profit for the year 2016				242,410	[3]

4. Correction of Errors and Suspense Account **[35]**

(a) Journal Entries

		Dr		Cr	
(i)					
Suspense	Dr	900	[3]		
To sales	Cr			900	[3]
Being correction of an error of incorrect posting of sales book figure.	[1]				
(ii)					
Sales returns	Dr	600	[3]		
To suspense	Cr			600	[3]
Being correction of an error of undertotting the total in the sales returns.	[1]				
(iii)					
Martin Smyth	Dr	650	[3]		
To Mary Smyth	Cr			650	[3]
Being correction of an error of entering goods purchased on credit in Martin Smyth's account instead of Mary Smyth's account.	[1]				
(iv)					
Bank	Dr	300	[3]		
To interest received	Cr			300	[3]
Being correction of an error omitting interest received.	[1]				
(v)					
Drawings	Dr	800	[3]		
To purchases	Cr			800	[3]
Being correction of an error of omitting goods by Claire Fennelly for her own use.	[1]				

(b) **[25]**

Statement of Corrected Net Profit

Original Net Profit			16,800	[5]
Add: Sales	900	[4]		
Purchases	800	[4]		
Interest received	300	[4]	2,000	
			18,800	
Less: sales returns			600	[3]
Corrected net profit			18,200	[5]

5. Interpretation of Accounts [40]

(a) (i) Opening Stock figure = €24,000 [12]

368,000 + 16,000 - 360000

(ii) Rate of Stock Turnover [8]

$$\frac{\text{opening stock + closing stock}}{2} \qquad \frac{\text{cost of sales}}{\text{average stock}}$$

$$\frac{24{,}000 + 16{,}000}{2} = \frac{368{,}000}{20{,}000} = 18.4 \text{ times}$$

(iii) Return on Capital Employed [12]

$$\frac{\text{net profit + interest}}{\text{capital employed}} \times \frac{100}{1} = \frac{171{,}000 + 8{,}000}{991{,}000} \times \frac{100}{1} = 18.06\%$$

(iv) Period of Credit received from Creditors [8]

$$\frac{\text{creditors}}{\text{credit purchases}} \times \frac{365}{1}$$

$$\frac{53{,}000}{360{,}000} \times \frac{365}{1} = 53.74 \text{ days or 54 days or 1.77 months}$$

(b) **[40]**

(i) **Authorised Share Capital**: This is the maximum amount of shares a company can issue. In this case Goggin has an authorised share capital of €900,000 €1 ordinary shares. [10]

(ii) **Trade Creditors**: Goods are bought on credit from creditors and paid for at a later date. In this case they are €53,000. [10]

(iii) **Liquid Assets**: These are current assets that can be turned into cash quickly. They are current assets less closing stock. In this question they are €94,000 - €16,000 = €78,000. [10]

(iv) **Interest Paid**: This is the extra money paid to the lender for the use of money borrowed from a bank. It is the cost of borrowing money. Goggin Ltd had to pay €8,000 interest on the money he borrowed. [10]

(c) **[10]**

(i) Acid test ratio = current assets – closing stock : current liabilities

(94,000 – 16,000) : 53,000 = 1.47 : 1

(ii) This ratio tells us that for every €1 they owe they have liquid assets of €1.47. This is better than the recommended ratio of 1 : 1.

(d) **[10]**

Return on capital employed has gone from 16% in 2015 to 18.06% in 2016. This is an increase of 2.06%. This is a good return, the business is profitable, it is greater than the return of approximately 1/3% from a bank or risk free investments.

6. **Cash Flow Statement**

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities **[30]**

	€	
Operating profit	70,000	[3]
Add depreciation	25,000	[6]
Increase in stock	(6,000)	[6]
Increase in debtors	(3,000)	[6]
Increase in creditors	9,000	[6]
Net cash inflow from operating activities	95,000	[3]

(b) Cash Flow Statement of Rodgers Ltd For the year ended 31/12/2016 **[60]**

			€	
Operating Activities [4]				
Net cash inflow from operating activities			95,000	[3]
Return on Investment and Servicing of Finance [4]				
Interest paid			(13,000)	[4]
Taxation [4]				
Tax paid			(20,000)	[4]
Capital Expenditure and Financial Investment [4]				
Purchase of land/buildings			(140,000)	[6]
Equity Dividends Paid [4]				
Dividends paid			(8,000)	[6]
Net cash inflow before liquid resources and financing			(86,000)	
Financing				
Issue of ordinary share capital	30,000	[4]		
Share premium	19,000	[4]		
Debentures	30,000	[4]	79,000	
Decrease in cash			**(7,000)**	[5]

(c) Reconciliation of Net Cash Flow to movement in Net Debt **[10]**

Decrease in cash in the period	(7,000)	[2]
Debentures	(30,000)	[2]
Change in net debt	(37,000)	[2]
Net debt 01/01/2016	(100,000)	[2]
Net debt 31/12/2016	(137,000)	[2]

7. Club Accounts

(a) Accumulated Fund as on 01/01/2016 [20]

Assets		**€**		**€**	
	Clubhouse	650,000	[3]		
	Land	290,000	[3]		
	Equipment	25,000	[3]		
	Investments	50,000	[2]		
	Bar stock	8,100	[2]		
	Cash in hand	3,600	[2]	1,026,700	
Less Liabilities					
	Bar creditors	3,800	[2]		
	Subs prepaid	1,500	[2]	5,300	
Capital/Net Worth 01/01/2016				1,021,400	[1]

(b) [8]

Bar Trading Account for the year ended 31/12/2016

Bar sales				32,300	[1]
Less cost of sales					
Opening stock		8,100	[1]		
Purchases	28,600 [1]				
Add creditors 31/12/2016	2,400 [1]				
	31,000				
Less creditors 01/01/2016	(3,800) [1]	27,200			
		35,300			
Closing stock		(9,200)	[1]		
Cost of sales				(26,100)	
Bar profit				6,200	[2]

(c) Income and Expenditure Account for the year ending 31/12/2016 [34]

Income		**€**		**€**	
	Bar profit	6,200	[2]		
	Subscriptions (62,400 + 1500 +2,600)	66,500	[7]		
	Investment interest	1,700	[3]		
	Annual sponsorship	15,000	[3]		
	Lotto (58,000 – 28,000)	30,000	[4]	119,400	
Less Expenses					
	General expenses (24,800 + 1,100)	25,900	[4]		
	Insurance	5,600	[2]		
	Depreciation of clubhouse	13,000	[4]		
	Depreciation of equipment	5,720	[4]	(50,220)	
Excess Income over Expenditure				69,180	[1]

(d) Balance Sheet of Kilternan Golf Club as on 31/12/2016 **[30]**

Fixed Assets	Cost		Dep.		N.B.V	
Clubhouse	650,000	[3]	13,000	[1]	637,000	[1]
Land	290,000	[3]	--------		290,000	[1]
Equipment	28,600	[3]	5,720	[1]	22,880	[1]
	968,600		18,720		949,880	
Investments					50,000	[2]
					999,880	
Current Assets						
Bank	82,400	[2]				
Bar stock	9,200	[2]				
Subs due	2,600	[2]	94,200			
Current Liabilities						
Bar creditors	2,400	[2]				
General expenses due	1,100	[2]	(3,500)			
Working Capital					(90,700)	
Net Worth					1,090,580	
Financed By						
Accumulated fund					1,021,400	[2]
Excess income					69,180	[2]
					1,090,580	

(e) **[8]**

- The closing balance in the receipts and payments account is the amount of money the club has at the end of the year, while the balance in the income and expenditure a/c is the profit or loss for the year.

- The balance can be different because expenses due/prepaid are included in the income/expenditure account even though they are not yet paid and therefore not in the receipts and payments account.

8. Absorption Costing [80]

(a) (i) **Overhead Absorption rate per Direct Labour Hour**

Direct labour hour rate [15]

$$= \frac{\text{Budget factory overheads}}{\text{Budgeted direct labour hours}} = \frac{€120{,}000}{16{,}000 \text{ hrs}} = €7.50 \text{ per labour hour}$$

(ii) **Overhead absorption rate per Machine Hour** [15]

Machine hour rate

$$= \frac{\text{Budgeted factory overheads}}{\text{Budgeted machine hours}} = \frac{€120{,}000}{8{,}000 \text{ hrs}} = €15 \text{ per machine hour}$$

(b) Total cost of Job No 562 [16]

Machine hour rate		
Direct materials	20,000	[5]
Direct labour (260 × €8.40)	2,184	[5]
Factory overheads (170 × €15)	2,550	[5]
	24,734	[1]

(c) Total Cost of Job No 562 [16]

Direct labour hour rate		
Direct materials	20,000	[5]
Direct labour (260 × €8.40)	2,184	[5]
Factory overheads (260 × €7.50)	1,950	[5]
	24,134	[1]

(d) Selling Price of Job No 562 [10]

Labour Rate		
Cost	24,134	[4]
Mark up 20%	4,827	[4]
Selling Price	28,961	[2]

[8]

(e)
A business needs to be able to calculate the cost price of a product so that they can determine a suitable selling price in order to make a profit. They also can see if it is worthwhile producing.

9. Product Budgeting [80]

(a) Sales Budget [20]

	Game Boy Pocket		Game Boy Light	
Budgeted sales	4,500	[4]	2,400	[4]
Budgeted selling price	× €30	[4]	× €40	[4]
	€135,000	[2]	€96,000	[2]
Total Sales = €231,000				

(b) Production Budget [16]

	Game Boy Pocket		Game Boy Light	
Budgeted sales	4,500	[2]	2,400	[2]
Add budgeted closing stock	520	[2]	340	[2]
	5,020		2,740	
Less budgeted opening stock	(650)	[2]	(410)	[2]
Budgeted production in units	4,370	[2]	2,330	[2]

(c) Material Usage Budget [16]

	Material A		Material B		
Game Boy Pocket (4,370 × 5)	21,850	[3]	(4,370 × 6)	26,220	[3]
Game Boy Light (2,330 × 2)	4,660	[3]	(2,330 × 3)	6,990	[3]
	26,510 kg	[2]		33,210 kg	[2]

(d) Materials Purchases Budget [10]

	Material A		Material B	
Budgeted usage	26,510	[1]	33,210	[1]
Add budgeted closing stock	200	[1]	330	[1]
	26,710		33,540	
Less budgeted opening stock	(160)	[1]	(290)	[1]
Budgeted production in units	26,550		33,250	
Budgeted purchase price	× €5	[1]	× €3	[1]
	€132,750	[1]	€99,750	[1]

(e) Labour Budget [10]

	Game Boy Pocket		Game Boy Light	
Budgeted production	4,370	[1]	2,330	[1]
No of hours per unit	× 3	[1]	× 4	[1]
	13,110		9,320	
Labour rate per hour	× €9	[1]	× €9	[1]
	€117,990	[1]	€83,880	[1]
Total labour cost = €201,870 [2]				

[8]

(f) A production budget tells us the number of units of a product that should be made in order to meet sales demand and to satisfy stock requirements.