Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2018

Marking Scheme

Accounting

Ordinary Level

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

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

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.

Future Marking Schemes

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 2018

ACCOUNTING - ORDINARY LEVEL
(400 marks)

Solutions

Q.1 Final Accounts of a Sole Trader **[80]**

Trading, Profit and Loss Account of Michael O'Reilly for the year ended 31/12/2017 [1]

	€		€		€	
Sales					583,000	[4]
Less sales returns					13,000	[4]
					570,000	
Less cost of sales						
Opening stock			27,000	[3]		
Purchases	192,000	[3]				
Less purchases returns	5,100	[3]	186,900			
			213,900			
Less closing stock			21,000	[3]		
Cost of sales					192,900	
Gross profit					377,100	
Less Expenses						
Administration [1]						
Wages and salaries	108,000	[4]				
General expenses	12,500	[4]				
Stationery	2,900	[6]				
Insurance	7,300	[6]				
Depreciation:						
Buildings	8,000	[4]				
Office equipment	4,000	[4]	142,700			
Selling and Distribution [1]						
Advertising	3,600	[6]				
Depreciation of delivery vans	5,200	[4]	8,800		151,500	
					225,600	
Add gains						
Discount received					1,300	[3]
Decrease in bad debt provision					790	[4]
Operating profit					227,690	
Less loan interest					3,600	[6]
Net profit for this year					224,090	
Add profit and loss balance 01/01/2017					51,400	[2]
Profit and loss balance 31/12/2017					275,490	[4]

[40]

Balance Sheet of Michael O'Reilly as at 31/12/2017 [1]

	Cost		Dep		NBV	
	€		€		€	
Intangible Assets						
Patents					24,000	[2]
Fixed Assets						
Buildings	400,000	[1]	8,000	[2]	392,000	
Equipment	20,000	[1]	14,000	[2]	6,000	
Delivery vans	64,000	[1]	17,200	[2]	46,800	
	484,000		39,200		444,800	
					468,800	
Current Assets						
Closing stock			21,000	[2]		
Stock of stationery			1,300	[2]		
Debtors	36,200	[2]				
Less bad debt provision	1,810	[2]	34,390			
Bank			46,500	[2]		
Advertising prepaid			1,800	[2]		
			104,990			
Creditors: amounts falling due within 1 year						
Creditors	22,400	[2]				
VAT	15,300	[2]				
Loan interest	2,100	[2]				
PRSI/USC	9,600	[2]	49,400			
Working capital					55,590	
Net worth					524,390	
Financed by						
Creditors: amounts falling due after 1 year						
Loan					60,000	[2]
Capital			202,000	[2]		
Add profit and loss balance			275,490	[2]		
			477,490			
Less drawings			13,100	[2]	464,390	
					524,390	

Q.2. Debtors and Creditors Control Account

[30]

Debtors Ledger Control Account

Dr		€				€ Cr	
01/01/2018	Balance b/d	86,500	[3]	01/01/2018	Balance b/d	3,300	[2]
	Sales	192,000	[5]		Discount allowed	1,650	[2]
	Interest charged	1,200	[2]		Sales returns	3,600	[2]
	Dishonoured ch.	1,900	[2]		Bills receivable	18,200	[2]
31/01/2018	Balance c/d	1,250	[2]		Bank	120,300	[2]
					Bad debts w/o	3,200	[2]
					Contra	2,100	[2]
				31/01/2018	Balance c/d	130,500	[2]
		282,850				282,850	
01/02/2018	Balance b/d	130,500		01/02/2018	Balance b/d	1,250	

[30]

Creditors Ledger Control Account

Dr		€				€ Cr	
01/01/2018	Balance b/d	440	[2]	01/01/2018	Balance b/d	45,000	[3]
	Purchase Returns	1,800	[3]		Purchases	165,000	[5]
	Discount received	2,400	[2]		Discount disallowed	700	[2]
	Bills payable	7,100	[2]	31/01/2018	Balance c/d	820	[2]
	Bank	80,200	[2]				
	Contra	2,100	[3]				
31/01/2018	Balance c/d	117,480	[2]				
		211,520				211,520	
01/02/2018	Balance b/d	820	[1]	01/02/2018	Balance b/d	117,480	[1]

Q.3. Bank Reconciliation

[35]

(a)

Dr		**Adjusted Bank Account**					**Cr**
		€				€	
Jan	Balance b/d	4,140	[6]	Jan	Standing order	60	[6]
	Interest received	210	[6]		Cheque dishonoured	820	[6]
					Bank charges	85	[6]
					Balance c/d	3,385	[5]
		4,350				4,350	

[25]

(b)

Bank Reconciliation Statement				€	
Adjusted cash book balance				3,385	[3]
Add: cheques drawn not yet cashed					
	400104 C. Quigley	2,720	[4]		
	400107 T. Walsh	450	[4]	3,170	
				6,555	
Less: lodgement not yet credited					
	Sales			5,600	[4]
				955	
Less: bank error				240	[8]
Balance as per bank statement				715	[2]

Alternative

				€	
Balance as per bank statement				715	[3]
Add: lodgement not yet credited					
	Sales			5,600	[4]
				6,315	
Less: cheques drawn not yet cashed					
	400104 C. Quigley	2,720	[4]		
	400107 T. Walsh	450	[4]	3,170	
				3,145	
Add: bank error				240	[8]
	Balance as per adjusted cash book			3,385	[2]

[60]

Q.4 Tabular Statement

Assets	**Feb-01**	**Feb-04**	**Feb-08**	**Feb-13**	**Feb-16**	**Feb-20**	**Feb-22**	**Feb-25**	**Feb-27**	**Totals**
Buildings	500,000 [2]									500,000
Delivery vans	82,000 [2]			21,000 [2]						103,000
Stock	52,000 [1]		14,800 [2]						(8,300) [1]	58,500
Debtors	14,000 [1]				(4,500) [2]			(400) [2]	7,300 [1]	16,400
Bank	41,500 [1]	(800) [2]		(4,000) [2]	3,200 [2]	(1,600) [2]	(380) [2]	120 [2]		38,040 [1]
Total	**689,500**	**(800)**	**14,800**	**17,000**	**(1,300)**	**(1,600)**	**(380)**	**(280)**	**(1,000)**	**715,940**
Liabilities										
Capital	590,000 [2]									590,000
Profit/loss	77,700 [3]				(1,300) [2]		120 [2]	(280) [2]	(1,000) [2]	75,240
Drawings						(1,600) [2]				(1,600)
Creditors	21,000 [3]		14,800 [2]				(500) [2]			35,300 [1]
Expenses due	800 [3]	(800) [2]								----------
Surety Finance Ltd				17,000 [2]						17,000
Total	**689,500**	**(800)**	**14,800**	**17,000**	**(1,300)**	**(1,600)**	**(380)**	**(280)**	**(1,000)**	**715,940**

Q.5 Interpretation of Accounts **[40]**

(a) (i) **Purchases** [12]

660,000 – 352,000	308,000
Add closing stock	14,000
	322,000
Less opening stock	(26,000)
	296,000

(ii) **Net Profit Margin** [8]

$$\frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1} = \frac{254{,}000}{660{,}000} \times \frac{100}{1} = 38.48\%$$

(iii) **Period of Credit given to Debtors** [12]

$$\frac{\text{Debtors}}{\text{Credit sales}} \times \frac{365}{1} = \frac{65{,}000}{660{,}000} \times \frac{365}{1} = 35.95 \text{ days}$$

(iv) **Acid Test Ratio** [8]

Current assets – closing stock : current liabilities

(93,000 – 14,000) : 52,000 = 1.52 : 1

(b) (i) **6% Debenture 2022/2023** **[40]**

Debentures are long term loans. They will be repaid in full during the years 2022/2023. They carry a fixed annual rate of interest of 6%. Larchfield has a debenture of €90,000. [10]

(ii) **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. Larchfield pay €5,400 interest. [10]

(iii) **Tangible Fixed Assets**

These are assets that have real value and can be seen. They are items of value that you see and touch, e.g. buildings. Larchfield Ltd has fixed assets which cost €980,000 and have a book value of €917,000. [10]

(iv) **Ordinary Dividend**

Part of net profit paid out to ordinary shareholders. It is decided by the directors and is a percentage of the issued ordinary share capital. [10]

(c) **[10]**

No, Larchfield would not have difficulty as the acid test ratio is 1.52:1 which is greater than the ideal of 1:1. This means they have €1.52 available for every €1 they owe in the short term.

(d) **[10]**

$$\frac{\text{Net profit + interest}}{\text{Capital employed}} \times \frac{100}{1} = \frac{254{,}000 + 5{,}400}{958{,}000} \times \frac{100}{1} = 27.08\%$$

Return on capital employed for 2017 was 27.08% which marks an increase from 19% in 2016. This is a good return, the business is profitable as the return currently available from the banks is less than 2%. Overall Larchfield Ltd is therefore performing well and is profitable.

Q.6 Cash Flow Statement

(a) **[30]**

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	€	
Operating profit	85,000	[3]
Add depreciation	12,000	[6]
Increase in stock	(5,000)	[6]
Increase in debtors	(4,000)	[6]
Decrease in creditors	(11,000)	[6]
Net cash inflow from operating activities	77,000	[3]

(b) **[65]**

Cash Flow Statement of Harding Ltd. For the year ended 31/12/2017

			€	
Operating Activities [2]				
Net cash inflow from operating activities			77,000	[4]
Return on Investment and Servicing of Finance [2]				
Interest paid			(5,000)	[8]
Taxation [2]				
Tax paid			(9,000)	[6]
Capital Expenditure and Financial Investment [2]				
Purchase of land/buildings			(100,000)	[6]
Equity Dividend paid [2]				
Dividends paid			(6,000)	[8]
Net cash outflow before liquid resources and financing			(43,000)	
Financing				
Issue of ordinary share capital	29,000	[6]		
Share premium	9,000	[6]		
	38,000			
Debentures	10,000	[6]	48,000	
Increase in cash			**5,000**	[5]

(c) **[5]**

Reconciliation of Net Cash Flow to movement in Net Debt

Increase in cash in the period	5,000	[1]
Debentures	(10,000)	[1]
Change in net debt	(5,000)	[1]
Net debt 01/01/2017	(78,000)	[1]
Net debt 31/12/2017	(83,000)	[1]

Q.7 Service Accounts **[30]**

(a)

Fahy Family Capital as on 01/01/2017

Assets	€		€	
Bed and breakfast premises	520,000	[3]		
Holiday home	94,000	[3]		
Equipment and linen	5,500	[3]		
Bicycles	6,400	[3]		
Cash	4,500	[4]		
Stock of fuel and heating oil	2,000	[5]	632,400	
Liabilities				
Advance deposits	1,500	[5]	1,500	
Capital			630,900	[4]

(b) **[40]**

Income and Expenditure Account for year ended 31/12/2017

Income				
	€		€	
Receipts from guests	32,350	[4]		
Receipts from bicycle hire	2,600	[2]		
Rent from holiday home	17,500	[4]	52,450	
Expenditure				
Provisions	7,424	[6]		
Light and heat	3,770	[6]		
Wages	17,200	[2]		
Laundry	2,900	[2]		
Advertising	1,400	[2]		
Repairs and maintenance	6,300	[2]		
Depreciation				
Bicycles	960	[3]		
Equipment and linen	1,100	[3]	41,054	
Excess income over expenditure			11,396	[4]

(c) **[30]**

Balance Sheet of Fahy Family as on 31/12/2017

Fixed Assets	**Cost**		**Dep**		**N.B.V**	
Bed and breakfast	520,000	[1]			520,000	[1]
Holiday home	94,000	[1]			94,000	[1]
Equipment	5,500	[1]	1,100	[1]	4,400	[1]
Bicycles	6,400	[1]	960	[1]	5,440	[1]
	625,900		2,060		623,840	
Current Assets						
Stock of oil	930	[3]				
Bank	14,500	[3]	15,430			
Current Liabilities						
Advance deposits	2,250	[3]				
Provisions due	180	[3]	2,430			
Working capital					13,000	
Net worth					636,840	
Financed by						
Capital					630,900	[2]
Excess income					11,396	[2]
Less drawings					(5,456)	[4]
					636,840	

Q.8 Marginal Costing **[80]**

[74]

(a)	**Selling price per unit**	= 880,000 / 44,000 units = €20 per unit	[14]
(b)	**Variable cost per unit**	= 440,000 / 44,000 units = €10 per unit	[14]
(c)	**Contribution per unit**	= SP - VC = CPU €20 – €10 = €10 per unit	[14]
(d)	**Break-even point**	= fixed costs / C.P.U. = 141,500 / 10 = 14,150 units	[6]
	Sales value	= 14,150 × €20 = €283,000	
(e)	**Margin of Safety**	= Budgeted sales – B.E.P. 30,000 – 14,150 = 15,850 units	[11]
	Sales value	= 15,850 × €20 = €317,000	

(f) Marginal Costing Statement

Sales (46,200 units) × €19	877,800	[3]
Variable costs (46,200 × €10)	(462,000)	[3]
Contribution	415,800	[3]
Fixed costs	(141,500)	[3]
Profit/loss	274,300	[3]

(g) **[6]**

Fixed Cost is a cost that does not change regardless of output levels, e.g. rent, depreciation at cost, supervisor's salary, insurance, rent and rates, fixed interest on a mortgage.

Q.9 Cash Budgeting **[80]**

(a) Cash budget for five months January - May **[61]**

Receipts	**January**	**February**	**March**	**April**	**May**	**Total**
Debtors	82,100 [2]	44,200 [2]	89,400 [2]	88,100 [2]	57,900 [2]	361,700 [1]
Total Receipts	82,100	44,200	89,400	88,100	57,900	361,700
Payments						
Cash for purchases	50,300 [1]	48,100 [1]	48,200 [1]	70,300 [2]	6,700 [2]	223,600 [1]
Wages	16,400 [2]	16,400 [2]	16,400 [2]	16,400 [2]	16,400 [2]	82,000 [2]
Equipment			6,000 [4]			6,000
Rent	3,500 [1]	3,500 [1]	3,500 [1]	3,500 [1]	3,500 [1]	17,500 [1]
Total Payments	70,200	68,000	74,100	90,200	26,600	329,100
Net cash	11,900 [1]	(23,800) [1]	15,300 [1]	(2,100) [1]	31,300 [1]	32,600 [1]
Opening cash	31,200 [1]	43,100 [1]	19,300 [1]	34,600 [1]	32,500 [1]	31,200 [1]
Closing cash	**43,100 [1]**	**19,300 [1]**	**34,600 [1]**	**32,500 [1]**	**63,800 [2]**	**63,800 [2]**

(b) **[14]**

Balance Sheet as at 31/05/2018

Fixed Assets					**Net Book Value**	
	€		€		€	
Fixed Assets					311,000	[2]
Current Assets						
Stock	29,100	[2]				
Debtors	81,600	[2]				
Cash	63,800	[2]	174,500			
Current Liabilities						
Creditors			34,500	[2]		
Working capital					140,000	
Net worth					451,000	
Financed by						
Capital					400,000	[2]
Add net profit					51,000	[2]
					451,000	

(c) **[5]**

Two benefits for Jack Manning in preparing a cash budget.

- It shows his surplus/deficit at the end of each month.
- It will help Jack to decide when a bank overdraft needs to be arranged.
- It will help Jack to decide how to invest the surplus.
- A cash budget shows all the inflows and outflows for the period.

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