Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2020

ACCOUNTING – HIGHER LEVEL

(400 marks)

3 hours

This paper is divided into 3 Sections:

Section 1: **Financial Accounting** (120 marks).
This section has four 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 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. It is very important that workings are shown in the answer book(s) so that full credit can be given for correct work.

SECTION 1 (120 marks)
Answer **Question 1** OR any **TWO** other questions

1. Sole Trader – Final Accounts

The following trial balance was extracted from the books of S. Heighway on 31/12/2019:

	€	€
Land and buildings (cost €795,000)	770,000	
Delivery vans (cost €250,000)	186,000	
Equipment at cost	128,800	
Purchases and sales	1,080,000	1,867,000
VAT		3,100
PAYE, PRSI, USC		3,450
Bank		48,800
Debtors and creditors	97,500	84,300
Salaries and general expenses, (incorporating suspense)	381,750	
Stock 01/01/2019	62,900	
Provision for bad debts		4,500
Mortgage interest paid for first three months	8,400	
Advertising	56,800	
Discount (net)		8,500
Drawings	50,000	
Investment interest received		2,500
Capital		750,000
6% Investments (01/07/2019)	250,000	
8% Fixed mortgage (including €60,000 issued on 01/04/2019)		300,000
	3,072,150	3,072,150

The following information and instructions are to be taken into account:

(i) Stock at cost on 31/12/2019 was €69,800. This figure includes water damaged stock which cost €10,600 but which now has a net realisable value of 15% of cost.

(ii) No record has been made in the books for 'goods in transit' on 31/12/2019. The invoice for these goods was received showing the recommended retail selling price of €24,500, which is cost plus 25%.

(iii) Provide for depreciation on delivery vans at the annual rate of 20% per annum on cost from the date of purchase to the date of sale.
NOTE: on 31/03/2019 a delivery van which had cost €48,000 on 31/10/2016 was traded in against a new van which cost €64,000. An allowance of €26,000 was given on the old van. The cheque for the net amount of this transaction was entered in the bank account but was incorrectly treated as a purchase of trading stock. These were the only entries made in the books in respect of this transaction.

(iv) A new warehouse was purchased during the year for €90,000 plus VAT @ 13.5%. The amount paid to the vendor was entered in the land and buildings account. No entry was made in the VAT account.

(v) Buildings are to be depreciated at the rate of 2% per annum on cost (land at cost was €500,000). It was decided to revalue the land and buildings at €900,000 on 31/12/2019.

(vi) The suspense figure arises as a result of the incorrect figure for mortgage interest (although the correct entry had been entered in the bank account) and a VAT payment of €3,700 entered only in the bank account.

(vii) The figure for bank in the trial balance has been taken from the business bank account. However, a bank statement dated 31/12/2019 has arrived showing an overdraft of €32,000. A comparison of the bank account and the bank statement has revealed the following discrepancies:

1. A credit transfer for €1,000 had been received on 31/12/2019 in respect of a debt of €1,500 previously written off as bad. The debtor has agreed to pay the remainder within two months. No entry was made in the books to record this transaction.
2. A cheque for €16,500 issued to a supplier had been entered in the books (cash book and ledger) as €15,600.
3. A cheque for €2,500 issued to a supplier had been returned. This had not been entered in the books.
4. A cheque for advertising €14,200 has not been presented for payment.

(viii) Provide for both investment income due and mortgage interest due.
(Note: 20% of mortgage interest for the year is to be attributed to the private section of the building.)

(ix) Provision for bad debts is to be adjusted to 4% of debtors.

Required:

(a) Prepare the trading and profit and loss account of S. Heighway for the year ended 31/12/2019. (75)

(b) Prepare the balance sheet of S. Heighway as at 31/12/2019. (45)

(120 marks)

2. Published Accounts

Finan plc has an authorised share capital of €750,000 divided into 500,000 ordinary shares at €1 each and 250,000 5% preference shares at €1 each. The following trial balance was extracted from its books on 31/12/2019:

	€	€
Buildings at cost	800,000	
Buildings – accumulated depreciation on 01/01/2019		74,000
Vehicles at cost	420,000	
Vehicles – accumulated depreciation on 01/01/2019		134,000
Quoted investments at cost (market value €290,000)	250,000	
Unquoted investments at cost (directors' value €98,000)	85,000	
Debtors and creditors	302,000	308,000
Stock 01/01/2019	85,000	
Patent 01/01/2019	91,000	
Distribution costs	378,000	
Administrative expenses	92,000	
Purchases and sales	1,450,000	2,380,000
Rental income		60,000
Profit on sale of land		65,000
Dividends paid	38,000	
Bank	79,000	
VAT		50,000
6% Debentures 2024/2025		300,000
Profit and loss account at 01/01/2019		81,000
Investment income received – quoted		10,500
Investment income received – unquoted		5,500
Issued capital		
Ordinary shares		350,000
5% preference shares		200,000
Provision for bad debts		15,000
Debenture interest paid	10,000	
Discount		47,000
	4,080,000	4,080,000

The following information and instructions are to be taken into account:

(i) Stock on 31/12/2019 was €110,000.

(ii) During the year, land adjacent to the company's premises, which had cost €140,000 was sold for €205,000. At the end of the year the company revalued its buildings at €1,000,000. The company wishes to incorporate this value in this year's accounts.

(iii) Provide for debenture interest due, auditor's fees €14,000, director's fees €50,000 and corporation tax €100,000.

(iv) Included in administrative expenses is the receipt of €12,000 for patent royalties.

(v) Depreciation is to be provided for on buildings at a rate of 2% straight line and is to be allocated 20% to distribution costs and 80% to administrative expenses. There was no purchase or sale of buildings during the year. Vehicles are to be depreciated at a rate of 20% of cost.

(vi) The patent was acquired on 01/01/2017 for €117,000. It is being amortised over 9 years in equal instalments. The amortisation is to be included in cost of sales.

Required:

(a) Prepare the published profit and loss account of Finan plc for the year ended 31/12/2019, in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:

1. Accounting policy note for tangible fixed assets and stock
2. Operating profit
3. Financial fixed assets
4. Tangible fixed assets.

(51)

(b) Explain **three** reasons why a public limited company publishes its annual report and accounts.

(9)

(60 marks)

3. Incomplete Records

On 01/01/2019, S. Staunton lodged €500,000 into a business bank account and on the same day purchased a business for €450,000 which included the following tangible assets and liabilities:

Premises €300,000; stock €25,300; debtors €47,000; three months rates prepaid €2,100; delivery vans €84,000; trade creditors €38,600; wages due €12,750 and 4% investments €25,000.

During 2019 Staunton did not keep a full set of accounts but was able to supply the following information on 31/12/2019:

(i) Each week Staunton took stock costing €280 and cash €150 for household expenses.

(ii) On 01/09/2019, Staunton borrowed €270,000 at 4% per annum, which, together with €20,000 of Staunton's personal funds, was used to purchase an adjoining premises costing €245,000. The remaining balance was used to purchase a delivery van on the same date.

It was agreed that interest would be paid monthly at the end of each month. The sum borrowed would be repaid over 15 years in 30 equal half-yearly instalments. The first instalment becomes due on 01/04/2020.

(iii) During the year Staunton lodged to the business bank account, an EU capital grant of €18,000 and investment interest of €750.

(iv) Staunton made the following payments from the business bank account during the year:

Light and heat €5,600, interest €2,000, rent for twelve months €32,400, rates for twelve months €10,320, cleaning services on Staunton's private premises €1,200.

The figure for rent was in respect of an adjoining warehouse rented by Staunton on 01/11/2019, payable in advance.

(v) Staunton estimated that 15% of light and heat and 20% loan interest for the year should be attributed to the private premises.

(vi) Staunton has decided to:

1. Set up a provision for bad debts amounting to 3% of debtors.
2. Provide for depreciation on delivery vans at the annual rate of 20% of cost from date of purchase to date of sale.

(vii) Included in the assets and liabilities of the firm on 31/12/2019 were:
stock €32,800 (which includes a stock of heating oil €400), debtors €54,000, trade creditors €32,600, bank €48,600 and electricity due €960.

Required:

(a) Prepare, with workings, a statement/balance sheet showing Staunton's profit or loss for the year ended 31/12/2019. (52)

(b) Illustrate how the accruals concept applies to these accounts. (8)

(60 marks)

4. Farm Accounts

Among the assets and liabilities of J. McAteer, who carries on a mixed farming business, on 01/01/2019 are: land and buildings at cost €460,000; vehicles and machinery at cost €124,000; electricity due €440; medicines prepaid €180; value of cattle €84,000; value of sheep €27,600; milk cheque due €2,600; stock of fuel €830; two months investment interest due €340.

The following is a summary taken from his cheque payments and lodgements books for the year ended 31/12/2019:

Lodgements	€	Cheque Payments	€
Balance 01/01/2019	41,600	Fertiliser	3,100
Milk	32,000	General farm expenses	18,600
Sheep	16,800	Dairy wages	4,200
Cattle	24,810	Sheep	10,400
Lambs	13,500	Cattle	16,800
Calves	7,800	Light, heat and fuel	2,600
Single payment – sheep	4,700	Machinery	12,000
Single payment – cattle	2,370	Repairs	2,300
Wool	1,600	Veterinary fees and medicines	3,160
E.U. GLAS environmental scheme	2,800	Bank loan plus 24 months' interest at 7.5% per annum on 31/05/2019	32,200
Interest from 2.5% investment bond	1,360		
		Balance 31/12/2019	43,980
	149,340		149,340

The following information and instructions are to be taken into account:

		Cattle	Sheep
(i)	Value of livestock on 31/12/2019 was:	€104,000	€25,000

(ii) Farm produce used by McAteer during the year – milk €650; lamb €470.

(iii) Veterinary fees and medicines include a cheque for private health insurance of €1,260.

(iv) General farm expenses, fertiliser, veterinary fees and medicines are to be apportioned 75% to 'cattle and milk' and 25% to 'sheep'.

(v) Other expenses and costs are to be apportioned 80% to general farm and 20% to household.

(vi) Vehicles and machinery are to be depreciated at the rate of 12.5% per annum on cost and buildings at 2% per annum on cost. (Land at cost was €330,000.)

(vii) On 31/12/2019 a milk cheque for €2,750 was due, creditors for fertilisers amounted to €500 and stock of fuel was €650.

Required:

(a) Prepare McAteer's statement of capital on 01/01/2019. (20)

(b) Prepare an enterprise analysis account for 'cattle and milk' and 'sheep' for the year ended 31/12/2019. (20)

(c) Prepare McAteer's general profit and loss account for the year ended 31/12/2019. (10)

(d) Prepare McAteer's drawings account. (4)

(e) Outline the implications of an incorrect closing stock valuation for McAteer. (6)

(60 marks)

SECTION 2 (200 marks)
Answer any **TWO** questions

5. Interpretation of Accounts

The following figures have been extracted from the final accounts of Robinson plc, a company involved in the home renovation and insulation industry for the year ended 31/12/2019. The company has an authorised capital of €750,000 made up of 500,000 ordinary shares at €1 each and 250,000 6% preference shares at €1 each.

Trading and Profit and Loss Account for year ended 31/12/2019	
	€
Sales	890,000
Cost of goods sold	(536,000)
Operating expenses for the year	(234,000)
Interest for year	(16,000)
Net profit for year	104,000
Dividends paid	(48,000)
Retained profit	56,000
Profit & loss balance 01/01/2019	66,000
Profit & loss balance 31/12/2019	122,000

Ratios and information for year ended 31/12/2018	
Earnings per ordinary share	18.5c
Dividend per ordinary share	8.33c
Interest cover	7 times
Acid test ratio	1.1 : 1
Market value of one ord. share	€1.24
Return on capital employed	9.8%
Gearing	55.76%
Dividend cover	2.22 times
Dividend yield	6.72%

Balance Sheet as at 31/12/2019			
	€	€	€
Fixed Assets			900,000
Investments (market value 31/12/2019, €130,000)			200,000
			1,100,000
Current Assets			
Stock 31/12/2019	75,000		
Debtors	93,000	168,000	
Less Creditors: amounts falling due within 1 year			
Trade creditors	(61,000)		
Other creditors	(25,000)	(86,000)	82,000
			1,182,000
Financed by			
4% Debentures (2023/2024 secured)			400,000
Capital and Reserves			
Ordinary shares @ €1 each		460,000	
6% Preference shares @ €1 each		200,000	
Profit and loss balance		122,000	782,000
			1,182,000

(a) **You are required to calculate the following for 2019**: (where appropriate, calculations should be made to **two** decimal places).

(i) The opening stock if the rate of stock turnover is 8 based on average stock.

(ii) Interest cover.

(iii) Return on ordinary shareholders' funds.

(iv) The market price if the price earnings ratio is 6.

(v) Dividend yield.

(50)

(b) Indicate if the ordinary shareholders would be satisfied with the performance, state of affairs and prospects of Robinson plc. Use relevant ratios and other information to support your answer.

(40)

(c) Explain how a faster stock turnover can increase the profitability of a business.

(10)

(100 marks)

6. Correction of Errors and Suspense Account

The trial balance of J. Beglin, a garage owner, failed to agree on 31/12/2019. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2019			
	€	€	€
Fixed Assets	**Cost**	**Dep. to date**	**Net**
Premises	740,000		740,000
Motor vehicles	125,000	40,000	85,000
Equipment	38,700	14,600	24,100
	903,700	54,600	849,100
Current Assets			
Stock	84,900		
Debtors (including suspense)	66,300		
Cash	3,200	154,400	
Creditors: amounts falling due within 1 year			
Creditors	(79,800)		
Bank	(26,600)		
VAT	(12,000)	(118,400)	
Net current assets			36,000
Total assets less current liabilities			885,100
Financed by			
Capital		850,000	
Net profit		42,700	
		892,700	
Less drawings		(7,600)	885,100
			885,100

On checking the books, the following errors and omissions were discovered:

(i) Equipment purchased on credit from P. Babb for €6,600 has been entered on the incorrect side of Babb's account as €6,060 and as €6,000 in the purchases account.

(ii) A creditor who was owed €5,500 by Beglin, accepted equipment, the book value of which was €5,200, in full settlement of the debt. The equipment had cost €6,800. No entry had been made in the books in respect of this transaction.

(iii) A private debt of €1,500 owed to Beglin had been offset in full settlement against a business debt of €1,660 owed by Beglin. No entry had been made in the books in respect of this transaction.

(iv) Payments from a business bank account for repairs to business premises of €1,000 and insurance of private dwelling of €750 were entered correctly in the bank account but respectively credited to creditors account and credited to the insurance account.

(v) Beglin sent a cheque for €920 in full settlement of a business debt of €990 and this was recorded correctly in the books. However, no entry had been made in the books for the dishonouring of this cheque and the subsequent payment of the amount **in full** by Beglin from a personal bank account.

Required:

(a) Journalise the necessary corrections. (52)

(b) Show Beglin's suspense account. (6)

(c) Prepare a statement showing the corrected net profit for Beglin. (14)

(d) Prepare the corrected balance sheet of Beglin. (20)

(e) Give an example of an error of commission. Will this type of error be revealed by a trial balance? Explain your answer. (8)

(100 marks)

7. Service Firm

The following were included among the assets and liabilities of Tranquillity Health Ltd on 01/01/2019:

Buildings and grounds at cost €650,000; equipment at cost €70,000; vehicles at cost €60,000; stock in shop €4,700; stock of heating oil €1,900; 5% investments €80,000; contract cleaning prepaid €750; clients' deposits paid in advance €5,700; creditors for supplies to Tranquillity Health Ltd €3,700.

The authorised capital of the company was €650,000 and the issued capital was €525,000.

All fixed assets have 3 years' accumulated depreciation on 01/01/2019.

The following is a receipts and payments account for the year ended 31/12/2019:

Receipts and Payments Account of Tranquillity Health Ltd for year ended 31/12/2019

	€		€
Balance at bank 01/01/2019	93,900	Laundry	3,400
Clients' fees	273,100	Telephone and broadband	2,600
Investment income	3,500	Wages and salaries	82,900
Shop receipts	63,600	Repayment of €70,000 loan on 01/05/2019 with 18 months' interest	75,400
		Equipment	15,000
		New extension	110,000
		New vehicle	38,000
		Insurance	8,700
		Contract cleaning	4,600
		Light and heat	5,900
		Purchases – shop	29,100
		Purchases – supplies	31,300
		Balance at bank 31/12/2019	27,200
	434,100		434,100

The following information and instructions are to be taken into account:

(i) Closing stocks at 31/12/2019: shop €3,600; heating oil €700.

(ii) Cleaning is done, under contract, payable monthly in advance and includes a payment of €475 for January 2020.

(iii) Clients' fees include €7,300 for 2020. Fees due from clients at 31/12/2019 were €900.

(iv) Wages and salaries include €26,000 per annum paid to the secretary, who also runs the shop. It is estimated that 30% of this salary, €350 of the light and heat, €850 of the insurance, and €400 of the telephone and broadband are attributable to the shop.

(v) Creditors for supplies to Tranquillity Health Ltd at 31/12/2019 were €2,450.

(vi) Electricity due on 31/12/2019 was €380.

(vii) Depreciation is to be provided as follows:

Buildings 2% of cost for the full year.

Equipment 10% of cost for the full year.

Vehicles 20% per annum on cost from date of purchase to date of sale. On 01/09/2019, a vehicle which cost €30,000 on 01/01/2016 was traded in against a new vehicle which cost €45,000. An allowance of €7,000 was given on the old vehicle.

(viii) On 31/12/2019, Tranquillity Health Ltd decided to revalue buildings at €850,000.

Required:

(a) Prepare a statement of the reserves (profit and loss balance) for Tranquillity Health Ltd on 01/01/2019. (18)

(b) Calculate the profit/loss from the shop for the year ended 31/12/2019. (10)

(c) Prepare the profit and loss account of Tranquillity Health Ltd for the year ended 31/12/2019. Show workings. (32)

(d) Prepare the balance sheet of Tranquillity Health Ltd on 31/12/2019. (30)

(e) Tranquillity Health Ltd now wishes to purchase equipment for the new extension.

Advise the Board on how to fund the expected cost of €140,000. (10)

(100 marks)

SECTION 3 (80 marks)
Answer **ONE** question

8. Marginal and Absorption Costing

(a) Whelan Ltd, produces a single product. The company's profit and loss account for the year ended 31/12/2019, during which 26,000 units were produced and sold, was as follows:

	€	€
Sales (26,000 units)		1,040,000
Materials	221,000	
Direct labour	364,000	
Factory overheads	166,000	
Administration expenses	115,500	
Selling expenses	87,900	954,400
Net profit		85,600

The materials and direct labour are variable costs.

Apart from a sales commission of 6% of sales, selling and administration expenses are fixed.

Factory overheads are mixed costs, and have behaved in the past as follows:

Year ended	Production (units)	Factory Overheads in €
31/12/2018	21,000	148,500
31/12/2017	16,400	132,400
31/12/2016	13,800	123,300

Required:

(i) Calculate the variable and fixed elements of factory overheads using the high/low method.

(ii) Calculate the break–even point and margin of safety for Whelan Ltd.

(iii) Calculate the number of units that must be sold at €45 per unit to provide a profit of 15% of the sales revenue earned from these same units.

(iv) Calculate the profit Whelan Ltd would make if it reduced its selling price by 5%, increased fixed costs by 4% and increased the sales commission percentage to 7% and thereby increasing the number of units sold by 20%, with all other cost levels and percentages remaining unchanged.

(v) Explain what is meant by a step fixed cost and give an example.

(b) Aldridge Ltd, produced 15,000 units of product A during the year ended 31/12/2019. 12,000 of these units were sold at €4.20 per unit. The production costs were as follows:

Direct materials	€0.70 per unit
Direct labour	€0.60 per unit
Variable overheads	€0.55 per unit
Fixed overhead costs per year	€8,400

Required:

(i) Prepare profit and loss statements under marginal costing and absorption costing principles for Aldridge Ltd.

(ii) Outline the differences between marginal and absorption costing.

Indicate which method should be used for financial accounting purposes.
Explain your answer.

(80 marks)

9. Budgeting

Houghton Ltd is planning to set up a business on 01/07/2020 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December
Sales units	11,400	11,600	11,800	11,900	12,200	12,400

Sales price per unit is €50.

(i) Stocks of finished goods are maintained at 60% of the following month's sales requirement.

(ii) Each product unit requires 4 kg of material X, which costs €3 per kg.

(iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs are held at the end of each month.

(iv) The cash collection pattern from sales is expected to be:

Cash Customers 40% of sales revenue will be for immediate cash and a cash discount of 5% will be allowed.

Credit Customers 60% of sales revenue will be from credit customers. These debtors will pay their bills in the month after sale.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

Expected Costs Wages €20,000 plus 10% of sales revenue per month, payable as incurred.

Variable overheads €12 per unit, payable as incurred.

Fixed overheads (including depreciation) €20,000 per month, payable as incurred.

Capital Costs Equipment will be purchased on 1 July 2020 costing €108,000 which will have a useful life of 5 years.

To finance this purchase, a loan of €96,000 will be secured at 6% per annum.

The capital sum is to be repaid in 48 equal monthly instalments.

The interest for each month is to be paid on the last day of the month based on the amount of the loan outstanding at that date.

Both capital repayments and interest payments commence on 31 August.

Required:

(a) Prepare a production budget for Houghton Ltd for the four months July to October 2020.

(b) Prepare a raw materials purchases budget (in units and €) for Houghton Ltd for the four months July to October 2020.

(c) Prepare a cash budget for Houghton Ltd for the four months July to October 2020.

(d) Prepare a budgeted trading and profit and loss account for Houghton Ltd for the four months ending 31/10/2020 (if the budgeted cost of a unit of finished goods is €30).

(e) (i) What useful information is available to Houghton Ltd from the cash budget?
(ii) Explain what is meant by a master budget.

(80 marks)