

Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2020

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.

1. Final Accounts of a Company

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Manufacturing Account of Stewart Ltd for year ended 31/12/2019 [1]

Stock raw materials 01/01/2019			50,000	[3]
Purchase of raw materials			380,500	[2]
			430,500	
Less stock of raw materials 31/12/2019			45,000	[3]
Cost of raw materials consumed			385,500	
Add factory wages			104,000	[4]
Add direct expenses			17,000	[2]
PRIME COST [1]			506,500	
Add Factory Overhead Expenses				
Factory supervisors wages	26,000	[2]		
Factory insurance	15,000	[3]		
Factory light and heat	12,400	[2]		
Dep. factory equipment	67,500	[3]		
Dep. factory building	35,400	[3]		
Total expenses			156,300	
Factory Cost			662,800	
Add work-in-progress 01/01/2019			16,400	[3]
			679,200	
Less work-in-progress 31/12/2019			20,000	[3]
			659,200	
Less sale of scrap materials			6,500	[3]
Cost of manufacture			652,700	[2]

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Trading Profit and Loss Account of Stewart Ltd for the year ended 31/12/2019 [1]

Sales					876,900	[3]
Less sales returns					13,000	[3]
					863,900	
Less cost of sales						
Opening stock			60,500	[3]		
Cost of manufacture			652,700	[3]		
			713,200			
Closing stock			50,000	[3]		
Cost of sales					663,200	
Gross profit					200,700	[1]
Less Expenses						
Administration [1]						
Stationery			7,400	[4]		
Selling and Distribution [1]						
Advertising	4,500	[3]				
Dep. motor vehicles	3,000	[3]	7,500		14,900	
Operating profit					185,800	
Less debenture interest					11,250	[3]
Net profit for the year					174,550	
Less taxation					24,000	[3]
					150,550	
Add profit and loss balance 01/01/2019					85,000	[2]
Profit and loss balance at 31/12/2019					235,550	[3]

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Balance Sheet of Stewart Ltd as at 31/12/2019

Intangible Assets						
Patents					80,000	[2]
Fixed Assets	**Cost**		**Depreciation**		**N.B.V.**	
Factory buildings	708,000	[1]	35,400	[1]	672,600	[1]
Factory equipment	450,000	[1]	217,500	[2]	232,500	[1]
Delivery vans	82,000	[1]	55,000	[2]	27,000	[1]
	1,240,000		307,900		932,100	
					1,012,100	
Current Assets						
Closing stocks: raw materials	45,000	[2]				
work-in-progress	20,000	[2]				
finished goods	50,000	[2]	115,000			
Stock of stationery			600	[2]		
Debtors	72,000	[2]				
Less bad debt provision	3,800	[1]	68,200			
Advertising prepaid			1,500	[2]		
			185,300			
Creditors: amounts falling due within 1 year						
Creditors	93,000	[2]				
Corporation tax	24,000	[2]				
VAT	15,400	[2]				
Bank	48,200	[2]				
Debenture interest due	11,250	[2]	191,850			
					(6,550)	
					1,005,550	
Financed by:						
Creditors: **amounts falling due after 1 year**						
10% Debentures					150,000	[2]
Capital and Reserves	**Authorised**		**Issued**			
Ordinary share capital	900,000	[1]	620,000	[1]		
Profit and loss balance 31/12/2019			235,550		855,550	
Capital employed					1,005,550	

2. (a) [35]

Profit and Loss Account for year ended 31/12/2019					
Net profit for year				192,000	[2]
Less interest				(20,000)	[5]
Less tax				(44,000)	[5]
				128,000	
Less appropriation					
Increase in general reserve		24,000	[5]		
Ordinary dividend		40,600	[5]		
Preference dividend		20,000	[5]	84,600	
Retained profit for year				43,400	
Retained profit 01/01/2019				286,000	[5]
Retained profits carried forward				329,400	[3]

(b) [25]

Balance Sheet as at 31/12/2019					
Fixed Assets and Current Assets				1,473,400	
Creditors: **amounts falling due within 1 year** [1]					
Interest due		20,000	[4]		
Tax due		44,000	[4]	64,000	
				1,409,400	
Financed by:					
Capital and Reserves [1]		**Authorised**		**Issued**	
Preference shares		600,000	[1]	400,000	[2]
Ordinary shares		900,000	[1]	580,000	[2]
		1,500,000		980,000	[1]
Profit and loss balance 31/12/2019				329,400	[4]
General reserve				100,000	[4]
				1,409,400	

3. Tabular Statement **[60]**

Assets	**01/01/2020**	**Jan 2**	**Jan 5**	**Jan 13**	**Jan 15**	**Jan 18**	**Jan 21**	**Jan 25**	**Jan 28**	**Totals**
Buildings	480,000 [1]									480,000
Machinery	120,000 [1]						140,000 [2]			260,000
Stock	43,000 [1]		15,600 [2]			(11,700) [2]				46,900
Debtors	39,000 [1]			(4,500) [2]		12,000 [2]			(800) [2]	45,700
Bank	47,500 [1]	(4,000) [2]		4,300 [2]	(5,400) [2]		(25,000) [2]	(3,700) [2]	240 [3]	13,940 [1]
Total	**729,500**	**(4,000)**	**15,600**	**(200)**	**(5,400)**	**300**	**115,000**	**(3,700)**	**(560)**	**846,540**
Liabilities										
Capital	685,000 [1]									685,000
Profit/Loss	14,000[1]			(200) [2]	500 [2]	300 [3]			(560) [3]	14,040 [1]
Drawings								(3,700) [3]		(3,700) [1]
Creditors	26,500 [2]		15,600 [2]		(5,900) [2]					36,200
Expenses	4,000 [2]	(4,000) [2]								
Fast Finance Ltd							115,000 [2]			115,000
Total	**729,500**	**(4,000)**	**15,600**	**(200)**	**(5,400)**	**300**	**115,000**	**(3,700)**	**(560)**	**846,540**

4. Service Account

(a) Lily Moloneys Capital as on 01/01/2019 **[20]**

Assets	€		€	
Buildings	400,000	[2]		
Furniture	23,400	[2]		
Motor vehicles	32,000	[2]		
Dental equipment	55,000	[2]		
Bank	15,700	[2]		
Amounts due from private patients	2,600	[2]		
Amounts due from medical card scheme	5,900	[2]	534,600	
Liabilities				
Light and heat due	400	[2]		
Depreciation of dental equipment	11,000	[2]	11,400	
Capital			523,200	[2]

(b) Income and Expenditure Account for year ended 31/12/2019 **[40]**

Income				
Private patient fees	196,000	[4]		
Medical card scheme	133,500	[6]	329,500	
Expenditure				
Light and heat	13,640	[6]		
Telephone and broadband	2,500	[2]		
Motor expenses	12,900	[2]		
Magazines	1,100	[2]		
Dental materials	33,100	[2]		
Insurance	22,000	[2]		
Wages	54,800	[4]		
Depreciation				
Dental equipment	7,000	[3]		
Motor vehicles	6,400	[3]	153,440	
Excess income over expenditure			176,060	[4]

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

(a) (i) **Gross Profit Margin** [10]

$$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$$

$$\frac{138{,}500}{690{,}000} \times \frac{100}{1} = 20.07\%$$

(ii) **Acid Test Ratio** [10]

Current Assets – Closing Stock	:	Current liabilities
(105,000 – 30,500)	:	45,500
1.64	:	1

(iii) **Period of Credit given to Debtors** [10]

$$\frac{\text{Debtors}}{\text{Credit sales}} \times \frac{365}{1}$$

$$\frac{50{,}000}{690{,}000} \times \frac{365}{1} = 26.45 \text{ days}$$

(iv) How many more shares can Logan Ltd issue/sell? [10]

Authorised - Issued = 900,000 – 596,000 = 304,000 shares

(b) (i) 6% Debentures 2024/2025: **[40]**

Debentures are long term loans. They will be repaid in full during the years 2024/2025. They carry a fixed annual rate of interest of 6%. Logan has a debenture of €200,000. [10]

(ii) Tangible Fixed Assets: These are items of value that you can see or touch.

Examples are buildings or office equipment. Logan Ltd has fixed assets of cost €860,000 and book value of €790,000. [10]

(iii) Shareholders' Funds: The amount of money that belongs to the shareholders in the business made up of:

Issued share capital	596,000
Retained profit	53,500
	649,500

[10]

(iv) Trade Creditors: Goods are bought on credit from creditors and paid for at a later date. In this case they are €45,500. [10]

(c) Acid Test Ratio: 1.64 : 1 **[10]**

No. This ratio tells us that for every €1 they owe they have liquid assets of €1.64. This is better than the recommended ratio of 1 : 1.

(d) Return on Capital Employed: **[10]**

$$\frac{\text{Net profit + interest}}{\text{Capital employed}} \times \frac{100}{1} = \frac{53{,}500 + 12{,}000}{849{,}500} \times \frac{100}{1} = 7.71\%$$

Return on capital employed has decreased from 10% in 2018 to 7.71% in 2019. This is a decrease of 2.29%. This is a good return, the business is profitable, and you would only get a return of about 1%/2% from a bank or risk free investment.

6. Cash Flow Statement

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

	€	
Operating profit	124,000	[3]
Add depreciation	41,000	[6]
Decrease in stock	12,000	[6]
Decrease in debtors	3,000	[6]
Decrease in creditors	(8,000)	[6]
Net cash inflow from operating activities	172,000	[3]

(b) Cash Flow Statement of Britton Ltd. For the year ended 31/12/2019 **[65]**

			€	
Operating Activities [2]				
Net cash inflow from operating activities			172,000	[4]
Return on Investment and Servicing of Finance [2]				
Interest paid			(11,000)	[8]
Taxation [2]				
Tax paid			(10,000)	[6]
Capital Expenditure and Financial Investment [2]				
Purchase of land/buildings			(240,000)	[6]
Equity Dividend paid [2]				
Dividends paid			(12,000)	[8]
Net cash inflow before liquid resources and financing			(101,000)	
Financing				
Issue of ordinary share capital	40,000	[6]		
Share premium	10,000	[6]		
	50,000			
Debentures	40,000	[6]	90,000	
Decrease in cash			**(11,000)**	[5]

(c) Reconciliation of Net Cash Flow to movement in Net Debt **[5]**

Decrease in cash in the period	(11,000)	[1]
Debentures	(40,000)	[1]
Change in net debt	(51,000)	[1]
Net debt 01/01/2019	(94,000)	[1]
Net debt 31/12/2019	(145,000)	[1]

7. Incomplete Records – Control Accounts

(a) Capital as on 01/01/2019 **[10]**

Assets	€		€	
Premises	540,000	[1]		
Equipment	32,000	[1]		
Debtors	16,400	[1]		
Stock	26,600	[1]		
Cash	21,900	[2]		
Expenses prepaid	2,700	[1]	639,600	
Liabilities				
Creditors	13,400	[1]	13,400	
Capital			626,200	[2]

(b) **[20]**

Debtors' Control Account

01/01/2019	Balance b/d	16,400	[2]	31/12/2019	Bank	176,600	[2]
	Credit sales	178,300	[1]		Balance c/d	18,100	[2]
		194,700				194,700	

Credit sales + cash sales = total sales

178,300 + 216,000 = 394,300 [3]

Creditors' Control Account

31/12/2019	Bank	127,900	[2]	01/01/2019	Balance c/d	13,400	[2]
	Balance c/d	16,800	[2]		Credit purchases	131,300	[1]
		144,700				144,700	

Credit purchases + cash purchases = total purchases

131,300 + 142,000 = 273,300 [3]

(c) **[30]**

Trading, Profit and Loss Account of Paul Brett for the year ended 31/12/2019

Sales			394,300	[3]
Less Cost of Sales				
Opening stock	26,600	[3]		
Purchases	273,300	[3]		
	299,900			
Less closing stock	24,200	[3]		
Cost of Sales			275,700	
Gross profit			118,600	
Less Expenses				
Wages and general expenses	92,700	[6]		
Depreciation: equipment	6,400	[4]	99,100	
			19,500	
Add				
Commission			15,100	[4]
Net profit			34,600	[4]

(d) **[40]**

Balance Sheet of Paul Brett as at 31/12/2019

Fixed Assets	**Cost**		**Dep**		**NBV**	
	€		**€**		**€**	
Premises	540,000				540,000	[3]
Equipment	32,000	[2]	6,400	[2]	25,600	[3]
Motor vans	25,000				25,000	[4]
	597,000		6,400		590,600	
Current Assets						
Closing stock	24,200	[4]				
Debtors	18,100	[4]				
Bank	36,700	[4]				
Expenses prepaid	2,200	[4]	81,200			
Creditors: amounts falling due within 1 year						
Creditors			16,800	[4]		
Working capital					64,400	
Net worth					655,000	
Financed by:						
Capital			626,200	[2]		
Add net profit			34,600	[2]		
			660,800			
Less drawings			5,800	[2]		
					655,000	

8 Marginal Costing **[80]**

(a) [10]

Selling price per Unit = $\frac{750{,}000}{50{,}000 \text{ units}}$ = €15 per unit

(b) [10]

Variable cost per unit = $\frac{475{,}000}{50{,}000}$ = €9 .50 per unit

(c) [10]

Contribution per unit = SP - VC = C
€15 - €9.50 = €5.50 per unit

(d) [10]

Break-even point = $\frac{\text{Fixed Costs}}{\text{C.P.U.}} = \frac{81{,}000}{5.50}$
14727.27 × 15 = €220,909.09
14728 x 15 = €220,920

Accepting both? OF in (e)

(e) [15]

Margin of Safety = Budgeted Sales − B.E.P.
50,000 − 14,727 units = 35,273 units
Sales Value = 35,273 × 15 = €529,095

(f)

Marginal costing statement [20]

	€
Sales (55,000 × €13.50)	742,500
Variable cost (€9.50 × 55,000)	522,500
Contribution	220,000
Fixed cost	(81,000)
Profit	139,000

(g) A fixed cost is a cost that stays the same regardless of the amount of units produced e.g. rent of factory, Insurance, salary, fixed interest payments property tax, rates. [5]

9. Cash Budgeting **[75]**

(a)

Cash Budget for five months March - July

Receipts	**March**		**April**		**May**		**June**		**July**		**Total**	
Debtors	92,000	[2]	62,000	[2]	101,000	[2]	91,100	[2]	86,000	[2]	432,100	[5]
Total Receipts	**92,000**		**62,000**		**101,000**		**91,100**		**86,000**		**432,100**	
Payments												
Cash for purchases	35,000	[1]	42,100	[2]	47,000	[2]	66,300	[1]	62,000	[1]	252,400	[1]
Expenses	7,000	[2]	12,000	[2]	11,000	[2]	13,000	[2]	15,500	[2]	58,500	[2]
Equipment									16,000	[2]	16,000	[2]
Rent	1,400	[1]	1,400	[1]	1,400	[1]	2,000	[1]	2,000	[1]	8,200	[1]
Total Payments	**43,400**		**55,500**		**59,400**		**81,300**		**95,500**		**335,100**	
Net cash	48,600	[2]	6,500	[2]	41,600	[2]	9,800	[2]	(9,500)	[2]	97,000	[2]
Opening cash	15,500	[2]	64,100	[1]	70,600	[1]	112,200	[1]	122,000	[1]	15,500	[3]
Closing cash	64,100	[1]	70,600	[1]	112,200	[1]	122,000	[1]	112,500	[2]	112,500	[3]

(b) **[5]**

- A cash budget will show Sheila all her inflows/outflows of cash during the period.
- She will know whether there is a cash deficit at the end of each month and will be able to organise a bank overdraft from her bank as needed.
- It will show her if there is a cash surplus and she will be able to decide how to use this surplus e.g. investment.

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