

AN ROINN OIDEACHAIS

LEAVING CERTIFICATE EXAMINATION, 1996

ACCOUNTING — HIGHER LEVEL — 400 MARKS

10804

WEDNESDAY, 12 JUNE — MORNING, 9.30 a.m to 12.15 p.m.

Answer **Question 1** and **three** other questions *OR* Answer **five** questions, omitting **Question 1**

NOTE: Calculators may be used in answering the questions on this paper: however it is very important that candidates show their workings in the answer-book(s) so that full credit can be given for correct work.

1. Jackson Ltd. has an Authorised Capital of £800,000 divided into 550,000 Ordinary Shares at £1 each and 250,000 8% Preference Shares at £1 each. The following Trial Balance was extracted from its books on 31/12/1995.

	£	£
Stocks 1/1/1995	38,000	
Purchases and Sales	587,000	896,000
Directors' Fees	45,000	
Salaries and General Expenses	108,000	
Discount (net)		3,000
Rent	12,000	
Debenture Interest paid for first 3 months	2,800	
Building at cost	420,000	
Delivery vans (cost £162,000)	96,000	
Goodwill (incorporating 4 months investment income received)	12,500	
9 % Investments 1/1/1995	150,000	
Debtors and Creditors	31,000	41,000
Provision for Bad Debts		1,600
Interim Dividends for first 3 months	32,000	
Advertising (incorporating suspense)	6,800	
Profit and Loss Balance 1/1/1995		22,700
8 % Debentures (including 60,000 8% debentures issued at par on 31/3/1995)		180,000
Bank		16,800
Issued Capital:		
280,000 Ordinary Shares at £1 each		280,000
100,000 8% Preference Shares		100,000
	1,541,100	1,541,100

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

- I Stock at 31/12/1995 at cost was £40,000 — this figure includes old stock which cost £4,500 but has a net realisable value of 40% of cost.
- II Goodwill, which incorporated 4 months investment income, is to be written off over a 2 year period commencing in 1995.
- III The suspense figure arises as a result of the incorrect figure for debenture interest (the correct figure was entered in the bank account) and discount allowed £200 entered only in the discount account.
- IV Provide for depreciation on delivery vans at the annual rate of 20% of cost from the date of purchase to the date of sale.
NOTE: On 31/5/1995, a delivery van, which had cost £20,000 on 1/3/1993, was traded against a new van which cost £32,000. An allowance of £14,000 was made on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading stock. This was the only entry made in the books in respect of this transaction.
- V The bank balance in the trial balance has been taken from the firm's cash book. However, a bank statement dated 31/12/95 has arrived showing an overdraft of £8,740. A comparison of the cash book and the bank statement has revealed the following discrepancies:
- investment income £6,750 had been paid direct to the firm's bank account.
 - a cheque issued for rent, £1,300, had not yet been presented for payment.
 - a cheque for £540, issued to a supplier, had been entered in the books (cash book and ledger) as £450.
 - a cheque for £100 had been lodged direct to the firm's bank account on behalf of a bankrupt debtor. This represents a first and final payment of 20p in the £1.
- VI The directors recommend that:
- The preference dividend due be paid.
 - A final dividend on ordinary shares be provided bringing the total dividend up to 15%.
 - Provision be made for both income and debenture interest due.
 - Provision for bad debts be adjusted to 6% of debtors.

You are required to prepare:

- Trading, Profit and Loss and Appropriation accounts for the year ended 31/12/1995. (80)
- A Balance Sheet as at 31/12/1995 (modern format) (50)

(130 marks)

2. The following figures have been taken from the Final Accounts of Jones Ltd., a dealer in leisure wear, whose Authorised Capital is £700,000 made up of 400,000 Ordinary Shares at £1 each and 150,000 8% Preference Shares at £2 each. The firm has already issued 350,000 Ordinary Shares and 100,000 Preference Shares.

	£	
Sales	892,000	
Cost of Sales	612,000	
Total expenses for year	126,000	
Profit and Loss Balance 1/1/1995.....	20,000	dr
Proposed Dividends	76,000	
Fixed Assets	542,000	
Investments (market value £180,000)	100,000	
Current Assets (including stock £70,000)	212,000	
Trade Creditors	45,000	
8% Debentures 1999 (secured).....	125,000	
Market Value of one ordinary share	£2.60	

- (a) Calculate the following:
- The opening stock if the rate of stock turnover is nine times (based on average stock).
 - The dividend cover.
 - The dividend yield of ordinary shares.
 - The earnings per share.
 - How long it would take one ordinary share to recoup (recover) its market price (based on current performance). (40)
- (b) A friend of yours has been given the opportunity to purchase 180,000 of the already issued ordinary shares in Jones Ltd, at £2.50 each, but, before doing so, asks for your advice. Your friend would be using money that had been borrowed at a fixed interest rate of 11% per annum. What advice would you give? Use ratios, percentages and other information to support your conclusions. (50)

(90 marks)

3. The Trial Balance of P. Jameson, a garage owner, failed to agree on 31/12/1995. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/1995

	£	£	£
<u>Fixed Assets</u>			
Premises		110,000	
Equipment		<u>75,000</u>	185,000
<u>Current Assets</u>			
Stock		122,000	
Debtors (including suspense)		<u>16,000</u>	
		138,000	
<u>Less: Current Liabilities</u>			
Creditors	78,000		
Bank	<u>32,000</u>	<u>110,000</u>	<u>28,000</u>
			<u>213,000</u>
<u>Financed By:</u>			
Capital		181,000	
Add: Net Profit		<u>39,000</u>	
		220,000	
Less: Drawings		<u>7,000</u>	<u>213,000</u>
			<u>213,000</u>

On checking the books, the following errors were discovered:

- A motor car, purchased on credit from J Brady for £8,000, had been entered on the incorrect side of Brady's account and credited as £8,800 in the Equipment account.
- A private debt for £365, owed by Jameson, had been offset in full against a business debt of £400, owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.
- Car parts, previously sold on credit for £240, had been returned to Jameson. These goods had been incorrectly entered as £40 on the credit of the Equipment account and as £420 on the debit of the Purchases account.
- Jameson had won a private holiday prize for two, worth £2,000. One ticket had been given to a salesperson as a bonus for the year, and the other to a creditor as payment in full of a debt of £1,100. No entry had been made in the books.
- Jameson had returned a motor car, previously purchased on credit from a supplier for £8,900, and had entered this transaction in the relevant ledger accounts incorrectly as £9,800. However, a credit note subsequently arrived from the supplier showing a delivery charge of £200. The only entry made in respect of this credit note was a credit of £8,700 in the creditor's account.

You are required to:

- Journalise the necessary corrections. (50)
- Show the Suspense Account. (7)
- Prepare a Statement showing the revised net profit. (18)
- Prepare a corrected Balance Sheet. (15)

(90 marks)

4. B. Jennings lodged £145,000 to a business bank account on 1/1/1995 and on the same day purchased a business for £130,000, consisting of the following tangible assets and liabilities: Premises £105,000, Stock £15,400, three months Rates prepaid £400, Debtors £21,400, Employees Commission due £2,500 and Trade Creditors £19,500.

Jennings did not keep a full set of books during 1995 but estimates that the gross profit was 40% of sales and was able to supply the following additional information on 31/12/1995:

- I. Each week Jennings took from stock goods to the value of £100 and cash £60 for household expenses.
- II. On 1/9/1995 the business borrowed £100,000, part of which was used to purchase an adjoining premises costing £80,000. It was agreed that Jennings would pay interest on the last day of the month at the rate of 9% per annum. The capital sum was to be repaid in one lump sum in the year 2009 and to provide for this the bank was instructed to transfer £600 on the last day of every month from Jennings' business account into an investment fund.
- III. During the year, Jennings lodged dividends £2,000 to the business bank account and made the following payments: Light and Heat £5,500, Interest £2,250, Wages and General Expenses £42,000, Equipment £8,000, Rates for twelve months £1,800 and College Fees £4,500.
- IV. Jennings estimated that 1/4 of the following: Light and Heat used and Equipment as well as 1/3 of Interest payable should be attributed to the private section of the premises. Jennings further estimates that 2/3 of College Fees should be attributed to a family member and the remainder to an employee.
- V. Included in the assets and liabilities of the firm on 31/12/1995 were: Stock £14,600 Debtors £16,600, Trade Creditors £14,200, Bank £63,430, Electricity due £560 and £65 interest earned by the Investment fund to date.

You are required to:

- (a) Prepare, with workings, a Statement/Balance Sheet showing Jennings' profit or loss for the year ended 31/12/1995. (44)
 - (b) Prepare, with workings, a Trading and Profit and Loss Account, in as much detail as possible, for the year ended 31/12/1995. (38)
 - (c) State why Jennings' record keeping is unsatisfactory. (8)
- (90 marks)**

5. The following accounts reflect the purchase of a business by Judge Ltd:

	P. Brady Account		
Bank	20,000	Business Purchase	204,000
Loan	40,000		
Ordinary Shares & Premium	144,000		
	Bank Account		
Ordinary Shares & Premium	30,000	Balance	24,000
		P. Brady	20,000
	Business Purchase Account		
Wages	4,000	Assets	192,000
Creditors	16,000	Goodwill	32,000
Contingent Liability	15,000	Preliminary Expenses	2,000
P. Brady	204,000		
	Ordinary Share Capital		
		Balance	80,000
		P. Brady	120,000
		Bank	24,000
	Share Premium Account		
		Balance	20,000
		P. Brady	24,000
		Bank	6,000
	Preliminary Expenses Account		
Business Purchase	2,000		

- (a) You are required to state the information revealed in the above accounts of Judge Ltd:
 - (i) Before the Purchase (13)
 - (ii) After the Purchase (40)
 - (b) Explain the entry Goodwill above and suggest two suitable methods of valuing it, giving examples. (12)
- (65 marks)**

6. Included among the assets and liabilities of the Giants Basketball Club on 1/1/1995 were the following:— Clubhouse and Arena £250,000, Bar Stock £8,000, Equipment (at cost) £25,000, Bar Debtors £400, Bar Creditors £7,000, Levy Reserve Fund £20,000, Investment Interest due for 1994 amounted to £420, Life Membership £24,000 and Wages due £350.

The Club Treasurer has supplied the following account of the Club's activities during the year ended 31/12/1995:

Receipts		Payments	
Bank Current Account	13,700	Bar Purchases	52,000
Interest from 7% Government investments	1,260	Sundry Expenses	39,000
Catering Receipts	14,800	Equipment	22,000
Subscriptions	43,000	Catering Costs	8,200
Bar Receipts	72,000	Repayment of £15,000 loan on 30/9/1995 together with 2 years' interest	17,400
Sponsorship	22,000	Transfer to Building Society on 31/12/1995	16,000
		Prize Bonds	150
		Balance	12,010
	<u>166,760</u>		<u>166,760</u>

You are given the following additional information:

Bar stock on 31/12/1995 was £9,000

Equipment owned on 31/12/1995 is to be depreciated at the rate of 25% of cost

Bar Debtors and Bar Creditors on 31/12/1995 were £350 and £6,500 respectively.

Subscriptions include:

- I. one life membership bringing total life membership to 13
- II. levy of £100 on the club's 200 members for 1995 and levy on 5 members due for 1994
- III. subscriptions £600 for 1994 and £400 for 1996.

You are required to:

- (a) Show the Club's Accumulated Fund (Capital) on 1/1/1995 (27)
 - (b) Show the Income and Expenditure Account for the year ended 31/12/1995 (30)
 - (c) What points would you as an ordinary member now make concerning the proposed 5 year levy scheme to fund the £100,000 extension. (8)
- (65 marks)**

7. Long Haul Transport Ltd prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of **20% of book value** per annum, calculated from the date of purchase to the date of disposal, and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/1994 Long Haul Transport Ltd owned the following trucks:

- No 1 purchased on 1/1/1990 for £50,000
- No 2 purchased on 1/1/1991 for £55,000
- No 3 purchased on 1/1/1992 for £60,000

On 1/8/1994 Truck No 1 was traded in for £17,000 against a new vehicle costing £65,000. Truck No 1 had a tachograph fitted on 1/1/1992 costing £5,500. On 1/5/1995 Truck No 3 was crashed and traded in against a new vehicle costing £68,000. The company received compensation from the insurance company to the value of £10,000 and the cheque paid for the new vehicle was £42,000.

You are required to show, with workings, to the nearest £1, for each of the two years 1994 and 1995:

- (a) The Trucks Account (8)
 - (b) The Provision for Depreciation Account (35)
 - (c) The Trucks Disposal Account. (22)
- (65 marks)**

8. R. Joyce invested £218,000 in a new business on 1/1/1995. Joyce supplied the following information relating to the business at 31/12/1995:

Current Ratio	3 : 1
Acid (Quick) Ratio	2 : 1
Average period of credit given to debtors	1.5 months
Stock Turnover (based on closing stock)	12 times
Mark up on cost	25%
Drawings during the year	£15,000
Depreciation on Fixed Assets	£30,000
Creditors	£14,000
Cash Sales	£27,000
Total Expenses (excluding depreciation)	£24,000
Current Liabilities consist of Creditors and Bank £7,000.	
Current Assets comprise Stock, Debtors and Cash.	
Depreciation is calculated at 15% of cost for a full year.	
Drawings include drawings of stock £2,500.	

You are required to prepare, *in as much detail as possible*:

- (a) The Balance Sheet on 31/12/1995 (35)
 - (b) The Trading and Profit and Loss Accounts for the year ended 31/12/1995 (30)
- (65 marks)**