CONTENTS

LESS STRESS MORE SUCCESS

Acknowledgments

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Introduction

My main objective in devising this revision book for Leaving Certificate Accounting is to give students a good guide to the **practical application of the syllabus**. Accounting is a practical subject, and that means it must be **practised**. It is very little use reading through accounting questions – they must be attempted.

A famous sportsman once said: 'The more I practise, the luckier and better I get.' That applies with these questions too. The famous sportsman, incidentally, was golfer Gary Player, but his words must have been echoed by every successful sportsperson in history. That's how important practice is when it comes to delivering your best performance exactly when it's needed.

Get your timing right

In order to achieve a high grade in Leaving Certificate Accounting you must practise using relevant questions. That is what this book provides. But remember that **timing** is also very important.

There's no point in spending three-quarters of the exam on a question that only accounts for one-tenth of the marks. So you need to get used to the idea of dividing the available time sensibly to allow you to get the best possible mark. Again, practice is the key.

The examination is three hours long. There are **400** marks in the exam. It is divided into three sections:

Section 1

Do either:

Question 1	120 marks
OR choose two out of:	
Questions 2, 3 and 4 @ 60 marks each	120 marks

*(**Tip** – do Question 1 – only one topic to think about.)*

This translates into 30 per cent of the marks.

30 per cent of the time = 54 minutes.

Section 2

Questions 5, 6 and 7 – do two of these @ 100 marks each.	200 marks

Each question is worth 25 per cent of the marks.

25 per cent of the time = 45 minutes.

*(**Tip** – generally try to do Questions 6 and 7 even though Question 5 is always on ratios and analysis.)*

Section 3

Questions 8 and 9 – do one of these @ 80 marks	80 marks

Each question is worth 20 per cent of the marks.

20 per cent of the time = 36 minutes.

What questions will come up?

Next, it's essential that you know the topics that are likely to appear in each of the three sections of the paper. Based on past papers, here are the topics you could be tested on in each question. Where you have a choice of questions to answer – for example in Section 1, where you can choose between answering Question 1 or answering two out of Questions 2, 3 and 4 – this should help you to plan in advance where your 'best' topics are likely to come up.

For a detailed look at which topics have come up in past years, see the table at the end of this introduction.

Section 1

Question 1. Final Accounts of one of:

- Company
- Sole trader
- Manufacturing
- Departmental

*(**Tip** – they are all much the same.)*

OR

Questions 2, 3 and 4. Two from:

- Farm Accounts
- Club Accounts
- Service Accounts
- Suspense Accounts
- Published Accounts
- Tabular Statements
- Cash Flow Statements
- Depreciation
- Revaluation
- Creditors Control
- Debtors Control

*(**Tip** – a lottery! There's no way of knowing which of these the examiners will choose.)*

Section 2

Two from:

- Ratios
- Incomplete Records
- Service Firms
- Club Accounts
- Suspense Accounts
- Published Accounts
- Farm Accounts
- Tabular Statements
- Cash Flow Statements

Section 3

Choose one from Questions 8 and 9:

Question 8. Costing

- Job and Product Costing
- Stock Valuation
- Marginal Costing

Question 9. Budgeting

- Production
- Cash
- Flexible

1 Final Accounts

aims

- To be able to **prepare** a full set of **final accounts**, including all **adjustments**, in less than the allocated time.
- To be familiar with the four forms of accounts in this question – **company accounts, sole trader accounts, manufacturing accounts** and **departmental accounts**.

Question 1 is always a set of final accounts. This question carries **120 marks**, which is **30 per cent** of the total. It is essential to practise these questions thoroughly.

The question involves a set of company, sole trader, manufacturing or departmental final accounts, each including a lot of adjustments.

key point

The fastest method is to lay out the questions in **blank form**. Enter the figures as they appear in the question beside the correct space in the blank form. Enter the figures in the first column and adjust them as required. The adjustments are included in the solutions to the questions.

exam focus

The basic rule is practise, practise, practise. Remember, if you are not going to answer question 1, then you must answer two questions from numbers 2, 3 and 4. Each of these questions carries 60 marks.

Question 1.1

Ballindine Ltd has an authorised share capital of €960,000 divided into 560,000 ordinary shares of €1 each and 400,000 11 per cent preference shares of €1 each. The following trial balance was extracted from its books at 31 December 2020:

Entry	Debit (€)	Credit (€)
Issued Capital: Ordinary Shares		450,000
Preference Shares		200,000
Profit and Loss		18,000
Stocks (Including Heating Oil €1,500)	48,500	
Debtors and Creditors	55,400	63,200
Buildings at Cost	495,000	
Delivery Vans (Cost €160,000)	105,000	
12% Debentures		125,000

Provision for Bad Debts		2,000
Bank		34,000
Light and Heat	5,000	
Purchases and Sales	590,000	830,000
9% Investments (1/1/2020)	150,000	
Salaries and General Expenditure	86,700	
Audit Fees	14,000	
Insurance of Vans (Including Suspense)	5,800	
Advertising (Incorporating 4 Months' Investment Income)	18,000	
Interim Dividends for 6 Months	28,000	
Debenture Interest Paid for First 4 Months	5,500	
Directors' Fees	35,300	
Goodwill	80,000	
	1,722,200	1,722,200

You are also given the following information:

1. Stock at 31 December 2020 was valued at €52,300. This includes heating oil of €900 and stocks that cost €4,000 and have a net realisable value of €2,500.
2. The suspense figure arises because an incorrect figure was entered for debenture interest (although the correct figure has been entered in the bank account) and purchases returns of €800 were entered only in the creditors account.
3. Goods sent to a customer on approval on 31 December 2020 had been entered in error as a credit sale. The selling price of these goods was €4,500, which represents cost plus 50 per cent mark-up.
4. Repairs to delivery vans costing €3,000 were carried out by the firm's own workforce. €500 of this represented parts taken from the firm's own stocks, and the remainder represented salary paid.
5. Provide for depreciation at the rate of 20 per cent of cost per annum from date of purchase to date of sale. On 31 July 2020 a van that had cost €15,000 on 1 April 2017 was traded against a new van costing €20,000. An allowance of €6,000 was received for the old van.

   The cheque for the net amount was treated in error as a purchase of trading stock, and this was the only entry made in the books.
6. The directors recommend:
   - **(a)** The preference dividend due be paid.
   - **(b)** A final dividend of 10 per cent be paid on the ordinary shares.
   - **(c)** Provision be made for debenture interest due.
   - **(d)** A bad debt of €400 be written off and the provision for bad debts be adjusted to 4 per cent of the remaining debtors.

You are required to prepare:

(a) Trading and profit and loss accounts for the year ended 31 December 2020.

(b) Balance sheet at 31 December 2020.

Solution to Question 1.1

Ballindine Ltd

(a) Trading and Profit and Loss Accounts for the Year Ended 31 December 2020

	Workings	(€)	(€)	(€)
Sales		825,500		
Less Costs				
Opening Stock		47,000		
Purchases		574,700		
		621,700		
Closing Stock		52,900		
			568,800	
Gross Profit			256,700	
Investment Income	W5		13,500	
Profit on Disposal			1,000	
				271,200
Less Expenses				
Establishment and Administration				
Light and Heat	W2	5,600		
Salaries and General		84,200		
Directors' Fees		35,300		
			125,100	
Financial				
Audit Fees		14,000		
Bad Debt		400		
Increase in Provision		20		
Selling and Distribution			14,420	
Van Insurance	W3	7,100		
Delivery Van Repairs		3,000		
Depreciation for Year		32,417		
Advertising	W4	22,500	65,017	204,537
Operating Profit				66,633
Less interest	W6			15,000
Net Profit				51,633

Less Appropriations			
Ordinary Dividend	Paid	17,000	
	Proposed	45,000	(62,000)
Preference Dividend	Paid	11,000	
	Proposed	11,000	(22,000)
			(32,337)
Add P & L Balance 1/1/2020			18,000
P & L Balance 31/12/2020			(14,337)

(b) Balance Sheet as at 31 December 2020

	Workings	Cost (€)	Depreciation (€)	Net Book Value (€)
Fixed Assets				
Buildings		495,000		495,000
Vans	W1	165,000	77,417	87,583
		660,000	77,417	582,583
9% Investment				150,000
Goodwill				80,000
				812,583
Current Assets				
Stock			52,900	
Debtors		50,500		
Less Provision for Bad Debts		(2,020)	48,480	
Stock of Heating Oil	W2		900	
Investment Income Due	W5		9,000	
			111,280	
Current Liabilities				
Creditors		63,200		
Bank		34,000		
Debenture Interest Due	W6	10,000		
Ordinary Dividend Due		45,000		
Preference Dividend Due		11,000		
Working Capital/Net Current Assets			163,200	(51,920)
				760,663
Financed by		**Authorised**	**Issued**	
OSC		560,000	450,000	
11% Preference Shares		400,000	200,000	
		960,000		650,000

Reserves	
Profit and Loss	(14,337)
Long-Term Liabilities	
12% Debentures	125,000
	760,663

Workings

W1

	Cost (€)	Depreciation (€)	Net Book Value (€)
Vans	160,000	(55,000)	105,000
	(15,000)	10,000	(5,000)
	20,000		
Depreciation on Old Van			
2004 15,000 × 20% × $\frac{3}{4}$ =	2,250		
2005–2006 15,000 × 20% × 2 =	6,000		
2007 15,000 × 20% × $\frac{7}{12}$ =	1,750		
	10,000		
Depreciation for Year			
145,000 × 20% =	29,000		
15,000 × 20% × $\frac{7}{12}$ =	1,750		
20,000 × 20% × $\frac{5}{12}$ =	1,667		
	32,417		

W2

Light and Heat

	(€)		(€)
	1,500	Profit & Loss	5,600
	5,000	Balance	900
	6,500		6,500
Balance 900			

W4

Advertising

	(€)		(€)
	18,000	Profit & Loss	22,500
Investment	4,500		
	22,500		22,500

W3

Van Insurance (Including Suspense)

	(€)		(€)
	5,800	Profit & Loss	7,100
	500		
	800		
	7,100		7,100

W5

Investment Income

	(€)		(€)
Profit & Loss	13,500	Advertising	4,500
		Balance	9,000
	13,500		13,500
Balance	9,000		

Question 1.2

James Horan Ltd, a manufacturing firm, has an authorised capital of €800,000 divided into 50,000 ordinary shares at €1 each and 250,000 eight per cent preference shares at €1 each. The following trial balance was extracted from its books at 31 December 2020:

	(€)	(€)
Factory Buildings (Cost €450,000)	405,000	
Plant and Machinery (Cost €260,000)	156,000	
Discount (Net)		4,000
Profit and Loss Balance 1/1/2020		82,300
Stocks on Hand 1/1/2020		
Finished Goods	85,500	
Raw Materials	48,000	
Work in Progress	24,150	
Sales		935,000
General Factory Overheads	50,300	
Patents	70,000	
Purchase of Raw Materials	450,280	
Sale of Scrap Materials		5,500
Hire of Special Equipment	12,000	
Debtors and Creditors	94,400	57,700
Interim Dividends (6 Months)	17,000	
Bank		11,450
Direct Factory Wages	198,220	
9% Debentures (Including €30,000 Issued on 1/4/2020)	100,000	
VAT		12,730
Issued Share Capital – Ordinary Shares		300,000
– Preference Shares		200,000
Carriage on Raw Materials		5,510
Selling Expenses		68,420
Administration Expenses (Including Suspense)	23,900	
	1,708,680	1,708,680

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

1. Stocks on hand at 31/12/2020:

	(€)
Finished goods	92,000
Raw materials	51,000
Work in progress	28,550

The figure for finished goods includes items which cost €7,000 to produce, but now have a sales value of €4,500.

2. Included in the figure for sale of scrap materials is €1,800 received from the sale of an old machine on 30/6/2020. This machine had cost €22,000 on 1/4/2016. The cheque had been entered in the bank account. This was the only entry made in the books.
3. The suspense figure arises as a result of discount allowed €1,000 entered only in the debtors account.
4. It was discovered that finished goods, which cost €8,000 to produce, were invoiced to a customer on a 'sale or return' basis. These goods had been entered in the books as a credit sale at cost plus 20 per cent.
5. During 2020 James Horan Ltd built an extension to the factory. The work was carried out by the company's own employees. The cost of their labour, €40,000, was included in factory wages. The cost of materials used, €18,000, is included in purchases. No entry was made in the books in respect of this extension.
6. Depreciation is provided on fixed assets as follows:
   Plant and machinery – 20% of cost per annum from date of purchase to date of sale.
   Factory buildings – 2% of cost at 31/12/2020.
7. The directors are proposing that:
   (a) The preference dividend due be paid.
   (b) The total ordinary dividend for the year should be 9c per share.
   (c) Provision should be made for debenture interest.
   (d) Corporation tax of €10,000 be provided for.
8. Goods should be transferred from factory at current market value €800,000.

You are required to prepare:

(a) Manufacturing, trading and profit and loss account for the year ended 31/12/2020. **75**

(b) Balance sheet as at 31/12/2020. **45**

Solution to Question 1.2 **35**

(a) Manufacturing Account of James Horan Ltd for the Year Ended 31/12/2020

	Workings	€	€
Opening Stock of Raw Materials			48,000 ❶
Purchases of Raw Materials	W1		432,280 ❸
Carriage In			5,510 ❷
			485,790
Less Closing Stock of Raw Materials			51,000 ❶
Cost of Raw Materials Consumed			434,790

Direct Costs:					
Factory Wages	W2	158,220	4		
Hire of Special Equipment		12,000	2	170,220	
Prime Costs		**605,010**			
Factory Overheads:					
General Factory Overheads		50,300	2		
Depreciation on Plant and Machinery	W3	49,800	3		
Depreciation on Buildings		10,160	3		
Loss on Sale of Machine	W4	1,500	4		
Factory Cost				111,760	
				716,770	
Work in Progress 1/1/2020				24,150	2
				740,920	
Less Work in Progress 31/12/2020				(28,550)	2
				712,370	
Less Sale of Scrap Materials	W5			(3,700)	4
Cost of Manufacture				708,670	1
Gross Profit on Manufacture				91,330	
Goods Transferred from Factory at CMV				800,000	1

Trading and Profit and Loss Account for Year Ended 31/12/2020

40

	Workings	€		€	
Sales	W6			925,400	5
Opening Stock of Finished Goods		85,500	2		
Goods Transferred @ CMV		800,000	2		
		885,500			
Less Closing Stock of Finished Goods	W7	97,500	6		
Cost of Goods Sold		788,000		(788,000)	
Gross Profit on Trading				137,400	
Gross Profit on Manufacture				91,330	
				228,730	
Less Expenses:					
Administration Expenses					
Administration Expenses	W8	22,900	6		

Selling and Distribution Expenses:			
Selling Expenses		68,420 ❷	(91,320)
			137,410
Discount (Net)	W9		3,000 ❸
Operating Profit			140,410
Less Debenture Interest	W10		(8,325) ❹
Net Profit before Taxation			132,085
Less Taxation			(10,000) ❷
Profit after Tax			122,085
Less Preference Dividend Paid		8,000 ❶	
Preference Dividend Due		8,000 ❶	
Ordinary Dividend Paid		9,000 ❶	
Ordinary Dividend Due		18,000 ❶	
			(43,000)
Retained Profit			79,085
Profit and Loss Balance 1/1/2020			82,300 ❷
Profit and Loss Balance 31/12/2020			161,385 ❷

(b) Balance Sheet of James Horan Ltd as at 31/12/2020

45

Intangible Assets					
Patents					70,000 ❷
Tangible Assets:	**Workings**	**Cost €**	**Accumulated Depreciation €**	**Net €**	
Factory Buildings	W11	508,000 ❷	55,160 ❷	452,840	
Plant and Machinery	W3,12	238,000 ❷	135,100 ❸	102,900	
		746,000	190,260	555,740	555,740
					625,740
Current Assets:					
Stocks Raw Materials			51,000 ❷		
Work in Progress			28,550 ❷		
Finished Goods			97,500 ❷	177,050	
Debtors	W13			84,800 ❺	
				261,850	

Creditors: Amounts Falling Due within One Year:				
Trade Creditors	57,700 ❷			
Bank	11,450 ❷			
VAT	12,730 ❷			
Dividends Due	26,000 ❹			
Taxation	10,000 ❷			
Debenture Interest Due	8,325 ❸			126,205
Net Current Assets				135,645
				761,385
Financed By:				
Creditors: Amounts Falling Due after More than One Year				
9% Debentures				100,000 ❷
Capital and Reserves:	**Authorised**		**Issued**	
Ordinary Shares at €1 Each	550,000 ❶		300,000 ❷	
8% Preference Shares at €1 Each	250,000 ❶		200,000 ❷	
	800,000		500,000	
Profit and Loss Balance 31/12/2020			161,385	
				661,385
				761,385

Workings

1.	Purchases of Raw Materials	450,280 − 18,000 = 432,280
2.	Factory Wages	198,220 − 40,000 = 158,220
3.	Depreciation on Plant and Machinery	26,000 + 23,800 = 49,800
		47,600 + 2,200 = 49,800
	Accumulated Depreciation on Plant	104,000 − 18,700 + 49,800 = 135,100
4.	Loss on Disposal of Machine	22,000 − 18,700 − 1,800 = (1,500)
5.	Sale of Scrap Materials	5,500 − 1,800 = 3,700
6.	Sales	935,000 − 9,600 = 925,400
7.	Closing Stock of Finished Goods	92,000 − 2,500 + 8,000 = 97,500
8.	Administration Expenses	23,900 − 1,000 = 22,900
9.	Discount	4,000 − 1,000 = 3,000
10.	Debenture Interest	6,300 + 2,025 = 8,325
	Debenture Interest	1,575 + 6,750 = 8,325
11.	Cost of Factory Buildings	450,000 + 18,000 + 40,000 = 508,000
12.	Cost of Plant and Machinery	260,000 − 22,000 = 238,000
13.	Debtors	94,400 − 9,600 = 84,800

Question 1.3

Cafferkey Ltd has an authorised capital of €990,000, divided into 690,000 ordinary shares at €1 each and 300,000 seven per cent preference shares at €1 each. The following trial balance was extracted from its books on 31/12/2020:

	€	€
Land and Buildings at Cost	780,000	
Accumulated Depreciation – Land and Buildings		39,000
Patents (Incorporating 2 Months' Investment Income Received)	58,200	
6% Investments 1/5/2020	180,000	
Delivery Vans at Cost	172,000	
Accumulated Depreciation – Delivery Vans		78,000
Stocks 1/1/2020	76,600	
Purchases and Sales	620,000	990,000
Directors' Fees	80,000	
Salaries and General Expenses	176,000	
Debenture Interest Paid	4,500	
Profit and Loss Balance 1/1/2020		67,600
Debtors and Creditors	73,900	81,000
Provision for Bad Debts		3,600
Interim Dividends for First 6 Months	40,000	
9% Debentures (Including 780,000 9% Debentures Issued at Par on 31/3/2020)		230,000
VAT		16,500
Bank		5,500
Issued Capital		
550,000 Ordinary Shares at €1 Each		550,000
200,000 7% Preference Shares €1 Each		200,000
	2,261,200	2,261,200

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

1. Stock at 31/12/2020 at cost was €85,000 – this figure includes old stock which cost €8,000 but has a net realisable value of 60 per cent of cost.
2. Patents which incorporated two months' investment income are to be written off over a five-year period commencing in 2020.
3. Provide for depreciation on delivery vans at the annual rate of 20 per cent of cost from the date of purchase to the date of sale.

   Note: On 31/9/2020 a delivery van which had cost €60,000 on 1/6/2018 was traded in against a new van which cost €84,000. An allowance of €22,000 was given 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.

4. Buildings are to be depreciated at the rate of two per cent of cost per annum (land at cost was €130,000). At the end of 2020 the company revalued the land and buildings at €880,000.
5. The figure for bank in the trial balance has been taken from the firm's bank account. However, a bank statement dated 31/12/2020 has arrived showing a credit balance of €4,040. A comparison of the bank account and the bank statement has revealed the following discrepancies:
   - (a) Investment income €2,700 had been paid direct to the firm's bank account.
   - (b) A cheque for €780, issued to a supplier, had been entered in the books (cash book and ledger) as €870.
   - (c) A credit transfer of €750 had been paid direct to the firm's bank account on behalf of a debtor who had recently been declared bankrupt. This represents a first and final payment of 30c in the €1.
   - (d) A cheque for fees of €6,000 issued to a director had not yet been presented for payment.
6. The directors recommend that:
   - (a) The preference dividend due be paid.
   - (b) A final dividend on ordinary shares be provided, bringing the total dividend up to 9c per share.
   - (c) Provision be made for both investment income and debenture interest due.
   - (d) Provision for bad debts be adjusted to four per cent of debtors.

You are required to prepare:

(a) Trading and profit and loss account for the year ended 31/12/2020. **75**

(b) Balance sheet as at 31/12/2020. **45**

120 marks

Solution to Question 1.3 **75**

(a) Trading, Profit and Loss Account for the Year Ended 31/12/2020

	Workings	€	€	€
Sales				990,000 ❷
Less Cost of Sales				
Stock 1/1/2020			76,600 ❷	
Add Purchases	W1		558,000 ❺	
			634,600	
Less Stock 31/12/2020	W2		(81,800) ❺	(552,800)
Gross Profit				437,200

Less **Expenses**					
Administration					
Directors' Fees		80,000 ❷			
Salaries and General Expenses		176,000 ❷			
Patents Written Off	W3	12,000 ❻			
Depreciation – Buildings	W4	13,000 ❹	281,000		
Selling and Distribution					
Bad Debts Written Off		1,750 ❹			
Depreciation – Delivery Vans	W5	35,600 ❻			
Loss on Sale of Van	W7	10,000 ❺	47,350		328,350
Operating Profit					108,850
Decrease in Provision for Bad Debts	W6		744 ❺		
Investment Income	W8		7,200 ❹		7,944
					116,794
Debenture Interest					(18,900) ❺
Net Profit for Year before Taxation					97,894
Less Appropriation					
Preference Dividend Paid			7,000 ❷		
Ordinary Dividend Paid			33,000 ❸		
Preference Dividend Proposed			7,000 ❷		
Ordinary Dividend Proposed			16,500 ❸		(63,500)
Retained Profit					34,394
Profit and Loss Balance 1/1/2020					67,600 ❷
Profit and Loss Balance 31/12/2020					101,994 ❻

(b) Balance Sheet as at 31/12/2020

45

	Workings	Cost €	Accumulated Depreciation €	Net €	Total €
Intangible Fixed Assets					
Patents (60,000 – 12,000)					48,000 ❸
Tangible Fixed Assets					
Land and Buildings	W9	880,000 ❶		880,000	
Delivery Vans	W10	196,000 ❷	85,600 ❸	110,400	
		1,076,000	85,600	990,400	990,400
Financial Assets					
8% Investments					180,000 ❷
					1,218,400

Current Assets				
Stock			81,800 ❷	
Investment Income Due			2,700 ❸	
Debtors	W11	71,400 ❸		
Less Provision		2,856 ❶	68,544	
			153,044	
Creditors: Amounts Falling Due within One Year				
Creditors	W12	81,090 ❸		
Preference Dividend Due		7,000 ❷		
Ordinary Dividend Due		16,500 ❸		
Debenture Interest Due		14,400 ❸		
VAT		16,500 ❷		
Bank	W13	1,960 ❺	(137,450)	
				15,594
				1,233,994
Financed by				
Creditors: Amounts Falling Due after More than One Year				
8% Debentures				230,000 ❷
Capital and Reserves		Authorised	Issued	
Ordinary Shares at €1 Each		690,000	550,000 ❶	
6% Preference Shares at €1 Each		300,000	200,000 ❶	
		990,000	750,000	
Revaluation Reserve	W14		152,000 ❸	
Profit and Loss Balance			101,994	
Shareholders' Funds				1,003,994
Capital Employed				1,233,994

Workings

1. Purchases	620,000 – 62,000 =	558,000
2. Closing Stock	85,000 – 3,200 =	81,800
3. Patents Written Off	(€58,200 + €1,800) × 20% =	12,000
4. Depreciation – Buildings	2% of (780,000 – 130,000) =	13,000
5. Depreciation – Delivery Vans	25,800 + 9,800 =	35,600
	34,400 + 1,200 =	35,600
	22,400 + 9,000 + 4,200 =	35,600
6. Decrease in Provision for Bad Debts	3,600 – 2,856 =	744
7. Loss on Sale of Van	60,000 – 22,000 – 28,000 =	10,000
8. Investment Income	1,800 + 2,700 + 2,700 =	7,200
9. Land and Buildings at Cost	780,000 + 100,000 =	880,000

10. Delivery Vans at Cost	172,000 + 84,000 − 60,000 = 196,000
Accumulated Depreciation D. Vans	78,000 + 35,600 − 28,000 = 85,600
11. Debtors	73,900 − 750 − 1,750 = 71,400
12. Creditors	81,000 + 90 = 81,090
13. Bank Overdraft as per Trial Balance	5,500
Less Investment Income	(2,700)
Less Credit Transfer Received	(750)
Less Bank under Credited	(90) = (1,960)
Alternative	(4,040 − 6,000) = (1,960)
14. Revaluation Reserve	100,000 + 39,000 + 13,000 = 152,000

Question 1.4

The following trial balance was extracted from the books of M. Conroy on 31/12/2020:

	€	€
9% Investments 1/6/2020	200,000	
Buildings (Cost €980,000)	933,000	
Delivery Vans (Cost €150,000)	80,500	
5% Fixed Mortgage (Including Increase of €200,000 5% Mortgage Received on 1/4/2020)		500,000
Patents (Incorporating 3 Months' Investment Income)	55,500	
Debtors and Creditors	77,600	86,500
Purchases and Sales	668,000	982,000
Stocks 1/1/2020	67,700	
Commission	24,000	
Provision for Bad Debts		3,800
Salaries and General Expenses	194,100	
Discount (Net)		4,600
Rent		15,000
Mortgage Interest Paid for First 3 Months	4,000	
Insurance (Incorporating Suspense)	8,700	
VAT		5,500
PRSI		2,300
Bank		70,900
Drawings	37,500	
Capital		680,000
	2,350,600	2,350,600

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

1. Stock at 31/12/2020 at cost was €74,500. This figure includes damaged stock which cost €6,600 but which now has a net realisable value of €1,900.
2. Provide for depreciation on vans at the annual rate of 15 per cent of cost from the date of purchase to the date of sale.

   Note: On 31/3/2020 a delivery van which had cost €42,000 on 31/5/2017 was traded against a new van which cost €48,000. An allowance of €20,000 was made 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.
3. Patents, which incorporate three months' investment income, are to be written off over a five-year period commencing in 2020.
4. The suspense figure arises as a result of the posting of an incorrect figure for mortgage interest to the mortgage interest account and discount received of €700, entered only in the creditors account. The correct interest was entered in the bank account.
5. Provision to be made for mortgage interest due.
6. A new warehouse was purchased during the year for €240,000 plus VAT of 12.5 per cent. The amount paid to the vendor was entered in the buildings account. No entry was made in the VAT account.
7. Provide for depreciation on buildings at the rate of two per cent of cost per annum. It was decided to revalue the buildings at €1,100,000 on 31/12/2020.
8. Provision for bad debts to be adjusted to four per cent of debtors.

You are required to prepare:

(a) Trading and profit and loss account for the year ended 31/12/2020. **75**

(b) Balance sheet as at 31/12/2020. **45**

120 marks

Solution to Question 1.4 **75**

(a) Trading, Profit and Loss Account for the Year Ended 31/12/2020

	Workings	€	€	€
Sales				982,000 ❷
Less Cost of Sales				
Stock 1/1/2020			67,700 ❷	
Add Purchases	W1		640,000 ❻	
			707,700	
Less Stock 31/12/2020	W2		(69,800) ❻	(637,900)
Gross Profit				344,100

Less **Expenses**				
Administration				
Salaries and General Expenses		194,100 ❷		
Patents Written Off	W3	12,000 ❻		
Insurance	W4	9,650 ❽		
Depreciation – Buildings	W5	19,000 ❸	234,750	
Selling and Distribution				
Loss on Sale of Delivery Van	W7	4,150 ❻		
Commission		24,000 ❷		
Depreciation – Delivery Vans	W6	23,175 ❺	51,325	(286,075)
				58,025
Add Operating Income				
Reduction in Provision for Bad Debts	W8			696 ❹
Rent				15,000 ❷
Discount	W9			5,300 ❺
Operating Profit				79,021
Investment Income				10,500 ❸
				89,521
Mortgage Interest	W10			(22,500) ❻
Net Profit for Year				**67,021** ❼

(b) Balance Sheet as at 31/12/2020

45

	Workings	Cost €	Accumulated Depreciation €	Net €	Total €
Intangible Fixed Assets					
Patents (€60,000 – €12,000)					48,000 ❹
Tangible Fixed Assets					
Buildings	W11	1,100,000 ❷		1,100,000	
Delivery Vans		156,000 ❷	74,825 ❸	81,175	
		1,256,000	74,825	1,181,175	1,181,175
Financial Assets					
Investments					200,000 ❷
					1,429,175
Current Assets					
Stock				69,800 ❷	
VAT	W12			24,500 ❺	
Investment Income Due				6,000 ❸	
Debtors			77,600 ❷		
Less Provision			3,104 ❶	74,496	
				174,796	

Creditors: Amounts Falling Due within One Year			
Creditors	86,500 ❷		
Mortgage Interest Due	18,750 ❸		
PRSI	2,300 ❷		
Bank	70,900 ❷	(178,450)	(3,654)
			1,425,521
Financed by:			
Creditors: Amounts Falling Due after More than One Year			
9% Fixed Mortgage			500,000 ❷
Capital and Reserves			
Capital 1/1/2020		680,000 ❶	
Add Net Profit		67,021 ❶	
		747,021	
Less Drawings		37,500 ❷	
		709,521	
Revaluation Reserve **W13**		216,000 ❹	925,521
Capital Employed			1,425,521

Workings

1. **Purchases**	668,000	
Less Payment for Van	(28,000)	640,000
2. **Closing Stock**	74,500	
Less Valueless Stock	(4,700)	69,800
3. **Patents**		
(€55,500 + €4,500) ÷ 5		12,000
4. **Insurance**	8,700	
Add Mortgage Interest	250	
Add Discount Received	700	9,650
5. **Depreciation – Buildings**		
2% of €950,000		19,000
6. **Depreciation – Delivery Vans**		
(€22,500 + €675) or (€5,625 + €17,550) or (€16,200 + €1,575 + €5,400)		23,175
7. **Loss on Sale of Van**		
(€42,000 − €17,850 − €20,000)		4,150 loss
Provision for Depreciation – Vans		
(€69,500 − €17,850 + €23,175)		74,825
8. **Provision for Bad Debts**		
(€3,800 – €3,104)		696 CR

9. Discount	4,600	
Add Unrecorded Discount	700	5,300
10. Mortgage Interest	4,000	
Less Suspense	(250)	
Add Interest Due	18,750	22,500
11. Buildings	98,000	
Less VAT	(30,000)	
Add Revaluation	150,000	1,100,000
12. Vat Account	5,500	
Less VAT on Buildings	(30,000)	24,500
13. Revaluation Reserve		
Land and Buildings	150,000	
Provision for Depreciation (47,000 + 19,000)	66,000	216,000

Question 1.5

The firm of O'Connor Bros Limited is divided into two departments – Footwear and Sportswear. The following balances were extracted from its books on 31/12/2020:

	€	€
Authorised and Issued Share Capital		
Ordinary Shares at €1 each		400,000
7% Preference Shares at €1 each		300,000
Buildings (Cost €800,000)	740,000	
Fittings and Equipment at Cost	160,000	
Accumulated Depreciation: Fittings and Equipment		38,400
Debtors and Creditors	73,000	56,000
9% Debentures (Including €40,000 9% Debentures Issued on 30/06/2020)		140,000
Footwear Department		
Stock 1/1/2020	42,000	
Purchases and Sales	390,000	600,000
Carriage Inwards	6,000	
Sportswear Department		
Stock 1/1/2020	27,000	
Purchases and Sales	270,000	400,000
Returns Outwards		3,000
Interim Dividends for First 6 Months	30,000	
Profit and Loss 1/1/2020	15,000	
Salaries and General Expenses	75,400	

Directors' Fees	24,000	
Debenture Interest Paid for First 6 Months	6,300	
Advertising Account 1/1/2020		1,500
Advertising	12,000	
VAT	4,800	
PAYE/PRSI		2,300
Light and Heat		11,200
Provision for Bad Debts		2,100
Bank		96,600
	1,983,300	1,983,000

You are given the following additional information:

1. Stocks at 31/12/2020: Footwear €45,000, Sportswear €32,000.
2. Sportswear which cost €6,000 was sent to a customer on a sale or return basis in December. These goods were incorrectly treated as a credit sale at a mark-up on cost of 50 per cent.
3. During the year new fittings were installed in the shop. The materials were included in error in Sportswear purchases. These materials had cost €7,000 and the labour costing €4,000 was provided by the employees.
4. Depreciation is to be provided as follows:

   Buildings: two per cent of cost

   Fittings and Equipment: 20 per cent of book value.

   At the end of the year the company revalued the buildings at €960,000.
5. The payment for advertising was for a two-year advertising campaign which commenced on 1/10/2019.
6. The floor space of the firm is divided as follows: Footwear 75 per cent, Sportswear 25 per cent.
7. Expenses applicable to both departments should be divided on the basis of sales or floor space where appropriate.
8. The directors recommend:
   - **(a)** The payment of the balance of the debenture interest.
   - **(b)** The payment of the balance of the preference dividend.
   - **(c)** The payment of a final dividend on the ordinary shares to bring the total dividend for the year up to 10%.
   - **(d)** To provide for taxation of €60,000.

You are required to:

(a) Prepare departmental trading and profit and loss account for the year ending 31/12/2020.