THEORY IN LEAVING CERTIFICATE
ACCOUNTING

CASH FLOW STATEMENTS

2014

Question 2 (B)

(ii) List three accounting obligations of a large public company under the Companies Act. (9)

SUGGESTED SOLUTION

Accounting Obligations of a large public company
Provide a full set of accounts, balance sheet and a cash flow statement to shareholders at AGM.
File/register a full set of accounts and balance sheet with the registrar of companies.
Provide explanatory notes to these accounts.
Must have its accounts audited.
They must also present an annual report to the company shareholders at its AGM. This report should include a director’s report, an auditor’s report as well as the published accounts.

2012

Question 7 (B)

(ii) Outline two responsibilities of the Directors of a plc.

Suggested Solution

(ii) Responsibility of Directors
To comply with the Companies Acts
To keep proper accounting records enabling financial statements to be prepared
Prepare annual financial statements
Select suitable accounting policies
Sign financial statements
Safeguard the assets of the company
Publish Final Accounts and Cash Flow Statement at least once a year
Present an Annual Report to shareholders at AGM to include:
  Directors’ report
  Auditor’s Report
  Financial Statements
2010

Question 3 (b)

(i) Outline the benefits of preparing a Cash Flow Statement

(ii) Distinguish between a cash expense and a non cash expense. 

12 marks

Suggested Solution

(b) 

- It shows the cash inflows and outflows during the past year
- It shows that profits do not always equal cash
- It aids financial planning/ it is used to predict future cash flows
- It provides information to assess current liquidity

Cash expense — reduces both profit and cash e.g. wages
Non-cash expense — reduces profit but not cash e.g. depreciation, provision for bad debts

2008

Question 6 (b)

(i) Explain why earning profit does not always result in a corresponding increase in cash balances.

(ii) Write a note on the Accounting Standards Board. In your answer refer to the main activity of the Board and how it has influenced the preparation of Cash Flow Statements. 

(15/100 marks)

Suggested Solution

(b) 

(i) 

Credit sales/purchases affect profit but do not affect cash.
Non-cash losses and gains affect profit but not cash.
Purchase and sale of fixed assets by cash affect cash but not profit.
Introduction or withdrawal of capital in cash affect cash but not profit.

(ii) 


FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.
It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.
2006

Question 3 (b) & (c)

(b) Explain why Cash Flow Statements are prepared (8 marks)
© Identify a Non Cash expense and a Non Cash gain. (4 marks)

Suggested Solution

(b) To show the cash inflows and outflows during the past year
To help predict future cash flows
To help financial planning
To provide information to assess liquidity
To show that profits do not equal cash
To comply with legal requirements

(c) Non-cash expense Non-cash gain
Depreciation, increase in provision for bad debts
Reduction in provision for bad debts, profit on sale of assets

2004

Question 4 ©

Explain why profit does not always mean a corresponding increase in cash and list two non cash items.

(c) Credit sales/ purchases affect profit but do not affect cash
Non-cash losses and gains affect profit but not cash
Purchase and sale of fixed assets by cash affect cash but not profit
Introduction or withdrawal of capital in cash affect cash but not profit

Non-cash items – Depreciation, Provisions against losses, losses/ profits from sale of assets
INTERPRETATION OF ACCOUNTS

2014

Question 5 ©

Explain the difference between the terms ‘Liquidity’ and ‘Solvency’ when used in Ratio Analysis. Refer to relevant ratios in your explanation. (10 marks)

Suggested solution

(c) **Liquidity and Solvency**

**Liquidity** measures the ability of the company to pay its short term debts as they fall due. The acid test ratio is a good indicator of liquidity as it includes only liquid assets i.e. cash and debtors. [5]

**Solvency** is the ability of a company to pay all of its debts as they fall due for payment (long term). Solvency is the most important indicator of a business’s ability to survive in the long term. A business is solvent if its total assets exceed its outside liabilities. Debt to equity or total debt to total assets are good guides. [5]

2013

Question 5 ©

(c) Dantzig plc is considering expansion by purchasing another food business. The following information for 2012 has been obtained on two possible purchases of similar companies:

<table>
<thead>
<tr>
<th></th>
<th>AB Foods</th>
<th>XY Traders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Capital Employed</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>3.2:1</td>
<td>1.9:1</td>
</tr>
<tr>
<td>Liquid (Acid Test) Ratio</td>
<td>0.6:1</td>
<td>1.3:1</td>
</tr>
</tbody>
</table>

Advise Dantzig plc which business, if any, should be purchased on the basis of the information provided. (10)

Suggested Solution

**AB Foods**

The Return on Capital Employed in AB Foods is 8%. This is better than XY Traders at 6% and also better than Dantzig plc at 5.37%.

The current ratio of AB Ltd of 3.2 to 1 is very high. This is possibly indicating excess stock. This is well above that of XY Traders of 1.9 to 1. This indicates poor stock control.

Acid Test ratio of 0.6 to 1 is low. It is well below the ratios of both XY Traders and Dantzig plc. This indicates a shortage of cash.

**XY Traders**

The Return on Capital Employed of 6% is lower than in AB Foods but higher than Dantzig plc at [5.37%]. Both these figures are below the cost of borrowing of 8%.

Current Ratio is good and within range of accepted norms.

Acid Test ratio at 1.3 to 1 is better than AB Foods at 0.6 to 1, but high. This high ratio indicates high debtors or excess cash. Either there is poor cash management or poor debt collection.

My advice to Dantzig plc is to purchase XY Traders
2012

Question 5 ©

(c) The gross profit percentage in 2010 was 36%.
   (i) Calculate the gross profit percentage for 2011.
   (ii) Give 5 different explanations for the decrease/increase in 2011. (15)

Suggested Solution

(c)  

<table>
<thead>
<tr>
<th>(i)</th>
<th>Gross Profit percentage</th>
<th>=</th>
<th>24.68% [5]</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii)</td>
<td>Cash losses</td>
<td></td>
<td>cash sales not recorded</td>
</tr>
<tr>
<td></td>
<td>Stock losses</td>
<td></td>
<td>pilferage of stock or obsolescent stock</td>
</tr>
<tr>
<td></td>
<td>Change in sales mix</td>
<td></td>
<td>more sales of low markup goods</td>
</tr>
<tr>
<td></td>
<td>Mark downs during sales</td>
<td></td>
<td>to get rid of out-of-date stock</td>
</tr>
<tr>
<td></td>
<td>Incorrect valuation of stock</td>
<td></td>
<td>overvalue of opening stock, undervalue of closing stock</td>
</tr>
<tr>
<td></td>
<td>Increased cost of sales</td>
<td></td>
<td>without an increase in sales price</td>
</tr>
<tr>
<td></td>
<td>Falling sales price</td>
<td></td>
<td>without corresponding drop in cost of sales</td>
</tr>
</tbody>
</table>

2011

Question 5 ©

Explain the limitations of ratio analysis (10 marks)

Suggested Solution

(c)

**Limitations of ratio analysis**

- It analyses past figures only and these figures are quickly out of date (historical). It merely gives us clues to the future.
- Ratios do not show seasonal fluctuations
- Firms use different accounting bases and therefore company comparisons are not accurate
- Financial Statements give limited pictures of a business. Other important aspects of a company are not revealed in the Financial Statements. Accounts alone cannot measure aspects which may be extremely significant such as monopoly position, economic climate, staff morale and management/staff relationships.
2010

Question 5 ©

(c) A friend of yours has been given the opportunity to buy ordinary shares in Hebe plc but before doing so asks your opinion. What advice would you give? Use ratios, percentages and any other information from the above to support your conclusions.

Suggested solution

Question 5 (c)

I would advise my friend **not** to buy shares in Hebe plc for the following reasons: [3]

**Share Price** [4]
The share value has fallen from €1.80 to €1.50 [30c] since 2009 and is likely to continue in its downward movement based on current year performance. There is a lack of stock market confidence and may discourage investment.

**Dividends** [4]
Dividend per share is 11.25c. The dividend per share has dropped from 15c
The dividend yield has dropped from 8.3% to 7.5%. Whilst the rate is good the trend is not.

**Reserves** [2]
The dividend cover is low and dropping. The firm is not retaining enough profits to build up reserves. The company’s dividend cover has dropped from 1.4 times to 1.33 times.

**Sector** [2]
Dairy industry is not performing well and future is unsure.

**Liquidity**
Company has a serious liquidity problem. The company now has only 36c available to pay every €1 owed in the short term.

**Profitability**
Profitability is worsening. The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend.

**Price Earnings Ratio**
Ratio is ten. It would take 10 years to earn back current price at current earnings.
2009

Question 5©

Having assessed Watson plc what actions would you advise the company to take? (15 marks)

Suggested Solution

(c)

Acid Test Ratio is only 0.74 to 1. Ratio dropped from 0.98 to 1 in 2007. Company has a liquidity problem

Raise cash and improve liquidity by:
1. Paying out lower or no dividends
2. Selling investments rather than issuing debentures.
3. Issuing the remaining 50,000 shares.
4. Improving gross profit percentage of 19.9% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

2008

Question 5 ©

A rising liquidity ratio is a sign of prudent management. Briefly discuss. (15 marks)

Suggested solution

(c)

A rising liquidity ratio is not always a sign of prudent management.

A rising liquidity ratio could be a sign of prudent management because it indicates that it is easier for the firm to pay its short term debts on time and thus avoid paying interest or enables it to avail of cash discounts.

However, if the liquidity ratio rises significantly above 1:1, it could mean that too much of the company’s resources are tied up in liquid assets when they could be used to earn more profits. Management may be leaving cash resources idle.
2007

Question 5 ©

(c) Advise the bank manager as to whether a loan of €150,000, on which an interest rate of 10% would be charged, should be granted to Mila Plc. for future expansion. Use relevant ratios and other information to support your answer. (20)

Suggested solution

**Bank Loan Application**

**Yes/No [2]**
2 points at 5 marks each (Gearing and ROCE)
2 points at 4 marks each

**Gearing [5]**
The company is highly geared
The gearing will get worse with a further loan of 150,000.
The gearing with the loan will be 65%.
The Interest Cover will get worse

**Return on Capital Employed [5]**
The ROCE will be 8.5% next year
which is less than the 10% interest to be charged on the loan.

**Dividend Cover/policy [4]**
The Dividend Cover is 1.1 times and is projected to increase to 1.31 times.
The Dividend Cover is low
Not enough of earnings are retained for repayment of the loan.

**Purpose for which loan is required [4]**
The loan is required for future expansion
and should generate extra income to service the loan.

**Security**
The Fixed Assets are valued at 680,000
but one should question depreciation policy to ascertain the real value of the assets.
The Investments alone have a market value of 210,000
which would provide security for the loan of 150,000.
The security is adequate.

**Liquidity**
The liquidity ratio of 0.99 to 1
It is expected to improve to 1.1 to 1 in 2007.
However the extra interest payment will cause this to be less favourable
2006

Question 5 ©

What actions would you advise the company to take?

(c) Raise cash and improve liquidity by:

1. Paying out lower dividends
2. Selling investments rather than issuing debentures.
3. Issuing more shares.
4. Improving gross profit percentage of 21.9% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

2005

Question 5 ©

The gross profit percentage for 2003 was 32%. Give 5 different explanations for the increase/decrease in 2004. (15 marks)

Suggested solution

2005

(e) 5 x 3 marks

The gross profit percentage has dropped from 32% in 2003 to 22% in 2004. This could be caused by:

- Cash losses
- Stock losses
- Mark downs during sales
- Incorrect valuation of stock
- Increased cost of sales without an increase in sales price
- Change in sales mix


**BUDGETING**

2014

Question 9 (e)

(i) Define what is meant by a Cash Budget and explain two advantages of a Cash Budget.

(ii) The Principal Budget factor is sales demand in most organisations. State two other factors that could also be considered to be the Principal Budget factor.

Suggested Solution

Cash Budget

A Cash Budget is a plan or forecast that summarises the expected inflows and outflows of cash during a period. This budget is prepared by the management accountant or the financial accountant.

A cash budget will anticipate periods when the organization will have cash surpluses and will enable it to arrange short term investments.

A cash budget will anticipate periods when the organization will have cash deficits and will enable it to make arrangements for a loan or overdraft.

A cash budget will help in making sure that there is always enough funds available to meet the day to day needs of the business.

Principal Budget Factor:

Apart from sales demand the principal budget factor could also be:

- Availability of materials
- Availability of labour
- Capacity of the plant
- Availability of capital

2013

Question 9 (e)

(i) What useful information is available to Murray Ltd from the completed cash budget?

(ii) Explain what is meant by a Capital budget.

Suggested Solution

(i)

Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or overdraft. It will see which months will have a surplus of cash and will be able to arrange short term investments.

There was a surplus of cash in March and April.

The trend of cash shortage is getting smaller- [normal for new business]. Overdraft facilities will be required each month up to a maximum of €135,800 in any month. Closing cash shortage is €4,850.

(ii)

The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset. Decisions regarding capital items are the responsibility of the Board of Directors. Carrying out of the capital budget is the responsibility of the Financial Controller.
2012

Question 9 ©

(c) What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012?

Suggested solution

(c)

- Last year sales from other stores
- Market research/ opinion of sales manager and sales representatives
- Trends/ State of Economy
- Price to be charged/Sales price
- Competition
- Luxuries versus necessities

2011

Question 9 (e)

(i) Explain the term ‘Master Budget’.

(ii) List the components of a Master Budget for a manufacturing firm.

Suggested Solution

(e)

A Master Budget is a summary of all the other budgets and provides an overview of the operations for the planned period.

A Master Budget for a manufacturing firm consists of:
- Budgeted manufacturing account
- Budgeted trading account and profit and loss account
- Budgeted balance sheet

2010

Question 9 ©

What is an adverse variance? State why adverse variances may arise in direct materials costs.

(c)

An adverse variance is when actual costs exceed the budgeted costs. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.
Question 9 (e)

Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010.

Suggested solution

(e)

- Last year sales
- Market research/Opinion of Sales manager and sales representatives
- Trends/State of Economy
- Price to be charged
- Competition
- Luxuries versus necessities

2008

(e) (i) Explain what is meant by a Capital Budget.

(ii) The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.

Suggested solution

(e)

(i) **Capital Budget:** This budget deals with any planned capital expenditure e.g. purchase of fixed assets and planned capital receipts such as the sale of the fixed assets. Decisions relating to these items would be the responsibility of the board of directors. The carrying out of the capital budget is the responsibility of the financial controller.

(ii) **Principal Budget Factor:** Apart from sales demand the principal budget factor could also be:

- Supply of materials
- Availability of labour
- Capacity of the plant
- Availability of capital
2007

Question 9 ©

Define ‘Cash Budget’ and describe two of its advantages.

Suggested solution

(c) A cash budget is a forecast or plan of cash inflow and cash outflow over a period

Advantages:
Highlights whether enough cash will be available to meet future needs
Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs
Helps to predict future surpluses so that short-term investment can be made

2006

Question 9 (b) & ©

(b) What is an adverse variance? State why adverse variances may arise in Direct material costs.

(c) Explain, with examples, ‘uncontrollable’ and ‘uncontrollable’ costs.

Suggested solution

(b) An adverse variance is where actual costs exceed budgeted costs. An adverse variance in direct material costs may arise if the purchase price of materials is higher than expected or if the quantities of material used are higher than expected.

(c) Controllable Costs: Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g. - all variable costs are controllable.

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g. - rates to the local authority are uncontrollable.
2005

Question 9 (e)

Note one the factors taken into account by Spencer Ltd. in arriving at the expected sales in 2006 of 11,700 units.

Suggested solution

(e)  Market research
     Trends
     Last year sales
     Opinion of Sales manager and sales representatives
     Price to be charged
     State of Economy
     Competition
     Luxury versus necessities
INCOMPLETE RECORDS

2013

(c) What additional information would be available to Kelly if he used the ‘double entry’ system to record financial transactions?  

Suggested solution

(c) Additional information
- General Nominal Ledger Accounts
- Trial balance
- Total sales figure [credit and cash]
- Total purchases figure [credit and cash]
- Bank balance
- Capital and drawings
- Bad debts, Expenses due and prepaid
- Discounts allowed or received

2011

(b) What advice would you give O’Hagan in relation to record keeping?  

Suggested solution

(b) O’Hagan should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O’Hagan to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

2009

(c) Summary of the advice you would give to Fuller in relation to the information given above.  

Suggested Solution

Fuller should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable Fuller to prepare an accurate Trading and Profit and Loss Account and therefore avoid reliance on estimates.
2007

(c)  (i) Explain the term Accounting Concept?
     (ii) Name TWO fundamental accounting concepts.
     (iii) Illustrate an accounting concept applying to the accounts of P. Lynch. (8)

Suggested solution

(i)  Accounting concepts
Accounting concepts are the accounting practices or rules that are applied in the
preparation of financial statements.

(ii) Fundamental Accounting concepts
Accruals, Going Concern, Consistency and Prudence

(iii) The accruals Concept – All expenses incurred in a particular period must be included
in the accounts of that period regardless of whether they are paid or not. Similarly, all
revenue income must be included in the accounts of that period whether received or not.
E.g. Electricity due for the current year must be included in the accounts, although the bill
may not be paid until the following year as the expense refers to the current year.
Insurance prepaid should not be included in the current year’s accounts as the payment
refers to the following year.

2005

(c)  What additional information would be available if Connolly’s accounts were prepared using the
“double entry” system? (8)

Suggested solution

(c)  Total sales figure
     Total purchases figure
     Trial balance
     Bank balance
     Capital
     Goodwill
     Bad debts
PUBLISHED ACCOUNTS

2014

(b) (i) State three items of information that must be included in a Directors’ Report.
(ii) Explain the term ‘Exceptional Item’ and use an example to support your answer. (9)

SUGGESTED SOLUTION

(b)

(i) 3

A Director’s Report must include the following:
• The amount to be transferred to reserves.
• A report of any changes in the nature of the company’s business during the year.
• A fair review of the development of the business of the company during the year and of the position at the end of the year.
• The principal activities of the company and any changes therein.
• Details of any important events affecting the company since the end of the year.
• Any likely future developments in the business.
• An indication of activities in the field of research and development.
• Significant changes in fixed assets.
• Details of own shares purchased.
• A list of the company’s subsidiaries and affiliates.
• Evaluation of company’s compliance with its safety statement.
• Details of directors’ share holdings and dealings during the year.

(ii) 6

Exceptional Item: This is a material item of significant size. It is a profit or loss that must be shown separately in the profit and loss account because of size. Example: Profit or loss on sale of fixed asset or large bad debt.
2013

(b) (i) Name the bodies/institutions that regulate the production, content and presentation of company financial statements.  
(ii) What is an Audit? Explain a qualified auditor’s report.  

SUGGESTED SOLUTION

Bodies/Institutions [4]
- The Government – Legislation
- The European Union – Directives
- Accounting Standards Board – FRS’s and SSAP’s
- The Stock Exchange – Listing Rules

What is an Audit? [3]
An audit is an examination of the financial statements of an enterprise by an appointed auditor. The audit is conducted by an auditor who is independent. The auditor expresses an opinion and certifies whether the accounts give a true and fair view of the financial position of the business. The Companies Acts require the auditor to certify that the accounts give a true and fair view of the financial position of the business.

A qualified Auditor’s Report [7]
A qualified auditor’s report is when an auditor in his/her opinion is not satisfied or is unable to conclude that all or any of the following apply:
- The financial statements give a true and fair view of the state of affairs of the company at the end of the year.
- The financial statements are prepared in accordance with the Companies Acts.
- All the information necessary for the audit was available.
- The information given by the directors is consistent with the financial statements.
- The net assets are more than 50% of the called up capital.

The report will state the elements of the accounts that are unsatisfactory.
2011

(b) (i) State how a company should deal with a Contingent Liability which is probable.
(ii) Explain the difference between an auditor’s qualified and unqualified report. (12)

SUGGESTED SOLUTION

(b)
(i) When a Contingent Liability is probable, the estimated amount should be provided for in the accounts and a note should show the nature of the loss. [4]

(ii) **Unqualified and Qualified Auditor’s Report [8]**
An unqualified auditor’s report is often referred to as a clean report. A report is unqualified when the auditor in his/her opinion is satisfied that the following apply:
- the financial statements give a true and fair view of the state of affairs of the company at the end of the year and of its profit and loss account for the year.
- the financial statements are prepared in accordance with the Companies Acts.
- all the information necessary for the audit was available
- the information given by the directors is consistent with the financial statements
- the net assets are more than 50% of the called up capital

A qualified auditor’s report is when an auditor in his/her opinion is not satisfied or is unable to conclude that all or any of the above apply:

The report will state the elements of the accounts or of the director’s report that are unsatisfactory.

2009

(b) (i) State three items of information that must be included in a Director’s Report.
(ii) Explain the term “exceptional item” and give an example. (15)
SUGGESTED SOLUTION

(i) **Directors Report**

A Directors Report must contain the following:

- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company’s business during the year.
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company’s subsidiaries and affiliates.
- Evaluation of the company’s compliance with its safety statement.
- Details of directors’ share holdings and dealings during the year.

(ii) **Exceptional Item**

This is a material item of significant size. It is a profit or loss that must be shown separately in the Profit and Loss Account because of size.

Example - Profit or loss on sale of a fixed asset or large bad debt.

2008

(b)  

(i) State how a company would deal with a Contingent Liability which is possible but unlikely.

(ii) What regulations must accountants observe when preparing financial statements for publication? (10)

SUGGESTED SOLUTION

(b)  

(i) When a Contingent Liability is possible but unlikely, it is not necessary to make provision in the accounts. However, a note should show the nature of the liability, an estimate of the amount and an opinion regarding the outcome. (5)

(ii) Accountants must observe regulations laid down by: (5)

- The Companies Acts
- The Financial Reporting council/Accounting Standards Board
- The Stock Exchange
2006

(b) What is an audit? Describe an auditor’s report that is ‘qualified’. (12)

SUGGESTED SOLUTION

(a) Audit

An audit is the independent examination of, and the expression of opinion on the financial statements of an enterprise by an appointed auditor.

The main objective of an audit is to enable the auditor, in keeping with the requirements of the Companies Acts, to report on the truth and fairness shown by:

• the balance sheet, the profit or loss shown by the profit and loss account and
• any other information required to be disclosed in the financial accounts.

The Companies Acts do not require the auditor to certify that the company records are correct or accurate but that the accounts give a true and fair view of the financial position of the business.

(b) Qualified Auditor’s Report

A qualified auditor’s report is when an auditor in his/her opinion is not satisfied or is unable to conclude that all or any of the following apply:

• the financial statements give a true and fair view of the state of affairs of the company at the end of the year and of its profit and loss account for the year
• the financial statements are prepared in accordance with the Companies Acts
• all the information necessary for the audit was available
• the information given by the directors is consistent with the financial statements
• the net assets are more than 50% of the called up capital

The report will state the elements of the accounts or of the director’s report that are unsatisfactory.
2005

SUGGESTED SOLUTION

(b) Directors Report \[3 \times 3\] marks

A Directors Report must contain the following:

- The dividends recommended for payment.
- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company’s business during the year.
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company’s subsidiaries and affiliates.
- Evaluation of company’s compliance with it’s safety statement.
- Details of directors’ share holdings and dealings during the year.

(c) Exceptional Item

This is a material item of significant size. It is a profit or loss that must be shown separately in the Profit and Loss Account because of size.

Example - Profit or loss on sale of fixed asset or large bad debt.
CLUB ACCOUNTS

2013

(c)  
(i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.
(ii) The club has decided to lay an all-purpose floor at a cost of €150,000. The Treasurer has proposed to increase the levy by €120 per annum and extend it for five more years. As an ordinary member what arguments would you make against this proposal? (10)

SUGGESTED SOLUTION

(c)  
(i) Sometimes non-profit making organisations such as a club prepare a profit and loss account for activities that are carried out to make a profit e.g. running a club lotto, dances, bar, restaurant etc. All expenses and revenues relating to the particular activity are entered in a special purpose profit and loss account and the profit/loss is then transferred to the income and expenditure account.

(ii) The proposed levy would raise €150,000 over the next 5 years [200 x 150 x 5] The club has funds amounting to:
   Investments 30,000
   Building society 28,000
   Cash 4,310
   62,310

   As a member I would make the case:
   The proposed levy of €200 [120 +80] amounts to 66% of the annual subscription.
   An increased levy would discourage new members and perhaps cause a drop in membership.

   The club is capable of generating enough income from within as it has a surplus of income amounting to €69,099 and it is financially sound as it has a cash balance of €4,310, building society investment of €28,000 and 4% government investments €30,000 totalling €62,310.

   Although a sizeable proportion of the surplus is provided by sponsorship of €73,000 and it cannot be guaranteed in future years it should be noted that this figure is well below the non-recurring capital amounts paid during the year i.e. equipment €41,000 and loan €44,800 amounting to €85,800.

   The club should use the cash and investments totalling €62,310 and borrow the remainder of €90,000 approx or continue with current levy of €80 for 3 years plus use current funds and borrow €28,000 approx.

   The improved facilities could:
   Increase the rent earned from the arena
   Increase membership
   Encourage increased advertising income
2011

(d) (i) State and explain two limitations of a Receipts and Payments Account.

(ii) The club is considering the installation of floodlights at a cost of €70,000. What advice would you give to the Treasurer of the club? (15)

SUGGESTED SOLUTION

(d) (i)  

**Limitations of a Receipts and Payments Account.** [6]

- does not show whether the club is raising enough funds to cover its running costs
- amounts due but unpaid at the end of the accounting period are not included
- only shows an increase or decrease in cash although there could be outstanding bills
- does not take into account losses such as depreciation
- does not show whether the club bar or restaurant are profitable
- does not distinguish between receipts for the current year and other years

(d) (ii)  

**Yes** I would advise the treasurer to go ahead and install the floodlights. The improved facilities would allow longer use of club courts resulting in added income from usage. This could enable the club to increase its membership and thereby increase the annual surplus of income as well as greater usage of restaurant and bar.

The club is in a strong financial position: It has a surplus of income over expenditure of €34,894 in the current year. At this rate of surplus enough funds would be generated in little over two years.

The club has increased its bank balance to €15,180 after paying off a loan of €20,000 during the year. [includes levy €20,000]

To fund the expenditure of €70,000 the club could use the cash balance of €15,180, the prize bonds of €4,400 and withdraw €20,420 from the investment fund.

The club should avoid using any of the funds raised through the levy as this is more than likely earmarked for other purposes and these funds may be needed for future capital expenditure.

<table>
<thead>
<tr>
<th>Funds available without Reserve Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>50,000</td>
</tr>
<tr>
<td>Prize bonds</td>
<td>4,400</td>
</tr>
<tr>
<td>Bank balance</td>
<td>45,180</td>
</tr>
<tr>
<td>Less Levy</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Net available</td>
<td>59,580</td>
</tr>
</tbody>
</table>

Borrow the remainder in the short term as the club is capable of paying back quickly through its regular income sources.
2008

(c)  
(i) Explain with the use of an example what is meant by a Special Purpose Profit & Loss Account.  
(ii) If it were proposed to introduce a further four year levy to fund a €250,000 extension what points would you as an ordinary member now make. (10)

SUGGESTED SOLUTION

(i) 3

Sometimes non profit making organisations such as a club prepare a Profit and Loss account for activities that are carried out to make a profit e.g. running a club lottery, dances, bar, restaurants etc. All expenses and revenues relating to that particular activity are entered in a special profit and loss account and the profit is then transferred to the income and expenditure account.

(ii) 7

The proposed levy would raise €200,000 over 4 years [250 x 200 x 4]

Yes/No
As a member I would make the case that the club is capable of generating enough income from within as it has a surplus of income of €63,180. The club is financially sound as it has cash of €13,960, building society investment of €60,000 and 5% government investments €24,000 totalling €97,960 even after it has paid off a loan and interest of €33,600 and had purchased equipment for €45,000.

However a sizeable proportion of the surplus is provided by Entrance Fees of €15,000 and Sponsorship of €25,000. This income cannot be guaranteed in future years.
2004

(d) Indicate the points you, as treasurer, might make if the members at the AGM of the club proposed to reduce the annual subscription by 20%.  

SUGGESTED SOLUTION

(d)  

A reduction in subscriptions of 20% for 2004 would involve a reduction in club income of €36,000.  

Although the club is financially sound as it has €51,190 in the bank, €70,000 in the building society, investments worth €40,000 and has paid off a loan of €30,000 these funds are set aside for future capital expenditure.  

The club’s surplus of income for the year 2003 of €50,015 would seem to indicate that the club is capable of bearing a reduction of 20%. However almost all of this surplus is provided by entrance fees of €17,000 and sponsorship of €33,000 and this income can not be guaranteed in future years.  

It can be argued that a reduction in membership fees could attract more members and thus bring in entrance fees as well as increase bar profit. However it would not be prudent to reduce subscription fees at present and instead it would be advisable to retain the present level of fees and use these fees to provide improved facilities for the members and thus attract more members.
CORRECTION OF ERRORS/SUSPENSE

2014

(e) Identify three types of errors that affect the balancing of a Trial Balance. (6)

SUGGESTED SOLUTION

(e)

Errors in figures and addition
Posting only one side of the double entry
Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account.

2012

(c) (i) What is the purpose of preparing a Trial Balance?
(ii) State and explain two types of errors not revealed by the Trial Balance. (6)

SUGGESTED SOLUTION

(c)

(i) A Trial Balance is prepared in order to test the accuracy of double entry bookkeeping before preparing Final Accounts. A Trial Balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit entry should have a corresponding credit entry.

(ii) Errors not revealed by a trial balance:
Errors of original entry – errors made in books of first entry
Errors of principle – incorrect class of account – entering an asset in an expense account
Errors of complete omission – where both debit and credit are omitted
Errors of commission – posting to wrong account but to the correct side of correct type of account
Compensating errors – where errors of equal value cancel each other out
Reversal of entries – where the debit entry is on the credit side and the credit entry is on the debit
2010

(e) Identify three different types of errors that affect the balancing of a Trial Balance. (10)

SUGGESTED SOLUTION

(e) Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account. Mathematical errors - figures and additions. Posting only one side of the double entry.

2008

(e) Explain with examples what is meant by:
   (i) Error of Commission;
   (ii) Error of Principle. (10)

SUGGESTED SOLUTION

(e) An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. Example: Goods sold on credit to Brian Brady debited in error to John Brady’s account.

An error of principle arises when an item is posted to the incorrect class of account. Example: A boutique owner purchased a vehicle and treated it as a purchase of stock.

2006

(e) Explain with examples the difference between ‘error of commission’ and ‘error of principle’. (10)

SUGGESTED SOLUTION

(e) An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. E.g. Goods sold on credit to Pat O’Brien debited in error to John O’Brien’s account.

An Error of Principle arises when an item is posted to the incorrect class of account. E.g. An electrical shop owner purchased a vehicle and entered it in the purchases account instead of the vehicles account.
COSTING

2014

(ii) Outline the differences between Marginal and Absorption costing. Indicate which method should be used for financial accounting purposes and why.

SUGGESTED SOLUTION

(ii) [6]
There is a difference in the profit figures because closing stock is valued differently. Closing stock under marginal costing is valued lower than under absorption costing. When costing a product, marginal costing does not include fixed costs whereas in absorption costing the fixed costs are included. Therefore a share of fixed costs is included in the value of stock under absorption costing and not included under marginal costing.
Under absorption costing, closing stock is valued at a 1/10 of the production cost of €19,000. Under marginal costing, closing stock is valued at a 1/10 of the variable cost of €15,000.

<table>
<thead>
<tr>
<th>Closing Stock – Absorption Costing</th>
<th>1,900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Stock – Marginal Costing</td>
<td>(1,500)</td>
</tr>
<tr>
<td>Difference</td>
<td>400</td>
</tr>
</tbody>
</table>

The profit difference is 18,900 – 18,500 = 400

[3] Absorption costing should be used as it agrees with standard accounting practice and concepts and also matches costs with revenues.

2012

(iii) Explain, with examples, ‘controllable’ and ‘uncontrollable’ costs.

SUGGESTED SOLUTION

(iii) [6]

Controllable Costs: Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g. - all variable costs are controllable. Commission to sales personnel can be controlled by the sales manager.

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g. - rates to the local authority are uncontrollable.
2011

(i) List and explain two limitations/assumptions of marginal costing.

(ii) Explain what is meant by a step fixed cost.

Roughly sketch a graph of step fixed costs using the following rental payments:

<table>
<thead>
<tr>
<th>Rent (€)</th>
<th>5,000</th>
<th>12,000</th>
<th>19,000</th>
<th>28,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (units)</td>
<td>20,000</td>
<td>30,000</td>
<td>40,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

SUGGESTED SOLUTION

(f) Limitations/assumptions: [7]

Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economies of scale or may increase because of increased costs.

It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range.

It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.

It is assumed that the selling price per unit is constant and does not allow for discounts.

Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.

Step Fixed Cost

Step fixed costs are costs that are fixed within a certain range of activity but change outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

Graph [5]
SUGGESTED SOLUTION

**Step Fixed Cost [6]**

Step fixed costs are costs that are fixed within a certain range of activity but changes outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

**Management Accounting/Financial Accounting [6]**

<table>
<thead>
<tr>
<th>Management Accounting</th>
<th>Financial Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is concerned with planning for the future and provides information for planning and budgeting</td>
<td>Is concerned with recording past events. Information is provided in the form of a profit and loss account, balance sheet and cash flow statement</td>
</tr>
<tr>
<td>Has an internal focus and furnishes information to aid planning and decision making</td>
<td>Has both internal and external focus and furnishes information to stakeholders such as managers, shareholders and creditors</td>
</tr>
<tr>
<td>Is not governed or restricted by legislation or legal requirements</td>
<td>Is governed and regulated by both legislation and accounting standards such as FRS’s.</td>
</tr>
<tr>
<td>Reports are prepared as often as the managers require them</td>
<td>Reports are prepared usually once a year</td>
</tr>
<tr>
<td>Reports are prepared for cost-centres/departments</td>
<td>Reports are prepared about the whole business</td>
</tr>
</tbody>
</table>
2007

(iv) Explain what is meant by ‘re-apportionment’ of overheads.
(v) Illustrate and explain ‘over-absorption’ of overheads.

(iv) 2

Re-apportionment:
This is the term used where Service Department costs are re-apportioned between production departments because overheads can only be recovered by being included as part of the cost of production.

(v) 4

Over-absorption:
Over-absorption is when costs are over recovered – budgeted costs are greater than actual costs.
The cost of fuel/power reduced

2006

(b) Outline the differences between Marginal and Absorption costing. Indicate which method should be used for financial accounting purposes and why.

SUGGESTED SOLUTION

(b) 5

There is a different profit figure because closing stock is valued differently.
Marginal costing does not include fixed costs when costing a product whereas absorption costing does include the fixed costs.
Therefore closing stock under marginal costing is valued lower than under absorption costing because a share of fixed costs is included in the value of stock under absorption costing but not included under marginal costing.

Under absorption costing, closing stock is valued at a ¼ of the production cost of 17,400
Under marginal costing, closing stock is valued at ¼ of the production cost of 14,400.

<table>
<thead>
<tr>
<th></th>
<th>Absorption costing</th>
<th>Marginal costing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing</td>
<td>4,350</td>
<td>(3,600)</td>
</tr>
<tr>
<td>stock</td>
<td>Difference</td>
<td>750</td>
</tr>
</tbody>
</table>

The profit difference is 22,950 – 22,200 = 750

Absorption costing should be used as it agrees with standard accounting practice and concepts and matches costs with revenues. 5
2005

(d) Name three overhead absorption rates and state why they are based on budgeted rather than actual figures.

SUGGESTED SOLUTION

(d) 

Absorption rates

- Per Labour Hour
- Per Machine Hour
- Per Unit
- Per Percentage of Prime Cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge.

2004

(f) List and explain two limitations/assumptions of marginal costing.

SUGGESTED SOLUTION

(f) 2 x 6 marks

Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economy of scale or may increase because of increased costs.

It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range.

It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.

It is assumed that the selling price per unit is constant and does not allow for discounts.

Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.
BUDGETING

2014

(e) (i) Define what is meant by a Cash Budget and explain two advantages of a Cash Budget.
(ii) The Principal Budget factor is sales demand in most organisations. State two other factors that could also be considered to be the Principal Budget factor.

S

(e) (i) Define what is meant by a Cash Budget and explain two advantages of a Cash Budget.
(ii) The Principal Budget factor is sales demand in most organisations. State two other factors that could also be considered to be the Principal Budget factor.

SUGGESTED SOLUTION

Cash Budget
A Cash Budget is a plan or forecast that summarises the expected inflows and outflows of cash during a period. This budget is prepared by the management accountant or the financial accountant.
A cash budget will anticipate periods when the organization will have cash surpluses and will enable it to arrange short term investments.
A cash budget will anticipate periods when the organization will have cash deficits and will enable it to make arrangements for a loan or overdraft.
A cash budget will help in making sure that there is always enough funds available to meet the day to day needs of the business.

Principal Budget Factor: Apart from sales demand the principal budget factor could also be:
Availability of materials
Availability of labour
Capacity of the plant
Availability of capital
2013

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

SUGGESTED SOLUTION

(e) [4]

(i) Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or overdraft. It will see which months will have a surplus of cash and will be able to arrange short term investments. There was a surplus of cash in March and April. The trend of cash shortages is getting smaller—[normal for new business]. Overdraft facilities will be required each month up to a maximum of €135,800 in any month. Closing cash shortage is €4,850.

(ii) The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset. Decisions regarding capital items are the responsibility of the Board of Directors. Carrying out of the capital budget is the responsibility of the Financial Controller.

2012

(c) What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012?

SUGGESTED SOLUTION

(c)  

- Last year sales from other stores
- Market research/opinion of sales manager and sales representatives
- Trends/state of economy
- Price to be charged/sales price
- Competition
- Luxuries versus necessities
2011

(e) (i) Explain the term ‘Master Budget’.
(ii) List the components of a Master Budget for a manufacturing firm.

SUGGESTED SOLUTION

(e)  

A Master Budget is a summary of all the other budgets and provides an overview of the operations for the planned period.

A Master Budget for a manufacturing firm consists of:
- Budgeted manufacturing account
- Budgeted trading account and profit and loss account
- Budgeted balance sheet

2010

(c) What is an adverse variance? State why adverse variances may arise in direct material costs.

SUGGESTED SOLUTION

(c)  

An adverse variance is when actual costs exceed the budgeted costs. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.
2008

(e) (i) Explain what is meant by a Capital Budget.
(ii) The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.

SUGGESTED SOLUTION

(e) [4]

(i) **Capital Budget**: This budget deals with any planned capital expenditure e.g. purchase of fixed assets and planned capital receipts such as the sale of the fixed assets. Decisions relating to these items would be the responsibility of the board of directors. The carrying out of the capital budget is the responsibility of the financial controller.

(ii) **Principal Budget Factor**: Apart from sales demand the principal budget factor could also be:
   - Supply of materials
   - Availability of labour
   - Capacity of the plant
   - Availability of capital

2007

(c) Define ‘cash budget’ and describe two of its advantages.

SUGGESTED SOLUTION

(c) [8]

A cash budget is a forecast or plan of cash inflow and cash outflow over a period

Advantages:
- Highlights whether enough cash will be available to meet future needs
- Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs
- Helps to predict future surpluses so that short-term investment can be made
(b) What is an adverse variance? State why adverse variances may arise in Direct material costs.

(c) Explain, with examples, ‘controllable’ and ‘uncontrollable’ costs.

SUGGESTED SOLUTION

(b) An adverse variance is where actual costs exceed budgeted costs. An adverse variance in direct material costs may arise if the purchase price of materials is higher than expected or if the quantities of material used are higher than expected.

(c) Controllable Costs: Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g.- all variable costs are controllable.

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable.
DEPRECIATION

2013

(d) (i) Why does a company charge depreciation in calculating profit?
(ii) Why would a company choose one method of depreciation over another? (8)

SUGGESTED SOLUTION

(d)

Why make a charge for depreciation[1]
Depreciation is an expense. Failure to include depreciation in the final accounts will result in the profits being overstated and the net assets in the balance sheet will not show a true value.

Why would a company choose one method over another[1]
A method of depreciation is chosen by a company because of its policy on depreciation and ensuring that the consistency concept is applied when preparing accounts.

Straight Line Method is where the same amount of the cost of the asset is written off each year. It is appropriate in the case of an asset that remains in the business over a long period of time and loses value slowly, for example Buildings, (assets that generate profit over many years).

Reducing Balance Method is where a fixed percentage of the value of the asset is written off each year. The amount written off is high in early years and reduces each year until written off. This method is appropriate in the case of an asset which loses most of its value in the years immediately after purchase e.g. vehicles, computer, equipment etc., (assets that become obsolete quickly because of changes in technology).

The general principle of providing depreciation is based on the matching concept.

2010

(d) (i) Explain what is meant by depreciation.
(ii) Why does a company charge depreciation in calculating profit? (8)

SUGGESTED SOLUTION

(i) Depreciation is the measure of the wearing away or loss in value of a fixed asset as a result of wear and tear, passage of time, obsolescence or extraction[1]

(ii) Depreciation is an expense. Failure to include depreciation in the final accounts will[1] result in the profits being overstated and the net assets in the balance sheet will not show a true value.
2005

(d) What factors are taken into account in arriving at the annual depreciation charge. (6)

SUGGESTED SOLUTION

(d)  

- Cost of asset
- Estimated life of asset
- Scrap value of asset

Method of depreciation
CONTROL ACCOUNTS

2014

(c) Explain
   (i) Contra item.
   (ii) How ‘an Opening Balance of €490’ above might arise.  (8)

SUGGESTED SOLUTION

(c)
   (i) Contra Item

   A contra item is an offset of a debtor against a creditor where the debtor and the creditor are the same person/business.

   (ii) Opening Balance €490 could arise as a result of:

       • A full payment of a debt followed by a credit note (returns or reduction) or full payment followed by discount.
       • Over payment of a debt.

2011

(c) (i) Which books of first entry are used in the production of Debtors Control Accounts?
   (ii) Explain the importance of Control Accounts.  (8)

(c) Books of first entry

   (i) Sales
       Sales Returns
       General Journal
       Cash Book – Receipts and Payments

   (ii) They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.

   They locate errors quickly and narrow searching for errors to confined areas

   They are useful when a firm needs to find credit sales or credit purchases from incomplete records.

   They allow amounts owed by Debtors and amounts owed to Creditors to be ascertained quickly by simply balancing the control accounts.
2010

(c) Give reasons why the balance in the Creditors’ Control Account may not agree with the balance in the Schedule of Creditors. (8)

(c) Give reasons why the balance in the Creditors’ Control Account may not agree with the balance in the Schedule of Creditors. (8)

SUGGESTED SOLUTION

(c)

Errors in either the control account or in the schedule but not in the other [4]
Failure to complete the double entry/Errors in the ledgers [4]
Incorrect totalling of subsidiary books sent to control account

2008

(c) Outline the advantages of Control Accounts to a firm. (6)

SUGGESTED SOLUTION

(c)

1. They act as a check on the accuracy of the ledgers by comparing the balance of the control account with the total as per the schedule.
2. Errors can be found more speedily using Control Accounts.
3. They are useful when a firm needs to find credit sales or credit purchases from incomplete records.
4. They allow amounts owed by Debtors and amounts owed to creditors to be ascertained quickly by simply balancing the control accounts.

2007

(c) Explain: (i) Contra item.
   (ii) How ‘Opening Balance €530’ above could arise. (8)
SUGGESTED SOLUTION

(c)

(i) Contra Item

A contra item is an offset of a debtor against a creditor where debtor and creditor are the same person.

(ii) Opening Balance €530

- A full payment of a debt followed by a credit note (returns or reduction)
- Over payment of a debt
- Full payment followed by discount

2005

(c) Explain why Creditors’ Control Accounts are prepared.

SUGGESTED SOLUTION

(c)

To check accuracy of figures related to creditors by comparing balance in control account with balance in the list of creditors.
To locate errors quickly and to narrow searching for errors to confined areas.