Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2026

Marking Scheme

Accounting

Higher Level

Note to teachers and students on the use of published marking schemes

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Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

Question 1 (A) Final accounts of a company

(a) Trading Profit and Loss Account of Daly Ltd for the year ended 31/12/2025 [1] **75**

			€	**€**
Sales				882,000 **[4]**
Less Cost of Sales				
Opening stock			76,000 **[4]**	
Purchases	N1		484,800 **[7]**	
Less closing stock	N2		(61,020) **[7]**	(499,780)
Gross Profit				382,220
Less Expenses				
Distribution Costs				
Loss on disposal of delivery van	N3	6,050 **[4]**		
Depreciation - delivery vans	N4	18,190 **[3]**		
Increase in BDP	N5	505 **[4]**		
Advertising		22,365 **[2]**	47,110	
Administration Expenses				
Patents written off	N6	9,700 **[3]**		
Insurance	N7	19,800 **[4]**		
Loss on insurance claim	N8	2,250 **[4]**		
Depreciation - equipment	N9	4,800 **[4]**		
Depreciation - buildings	N10	16,000 **[2]**		
Salaries & general expenses	N11	172,935 **[6]**	225,485	(272,595)
				109,625
Add Operating Income				
Discount				4,500 **[4]**
Operating Profit				114,125
Investment income	N12			3,375 **[3]**
				117,500
Less debenture interest	N13			(16,200) **[4]**
Net Profit before Taxation				101,300
Taxation				(25,000) **[1]**
Net Profit after taxation				76,300
Less dividends paid				(42,500) **[1]**
Retained profit				33,800
P&L balance 01/01/2025				(14,200) **[2]**
P&L balance 31/12/2025				19,600 **[1]**

(b) Balance Sheet of Daly Ltd as at 31/12/2025

	Cost	Acc Dep	NBV
Intangible Fixed Assets			
Patents N14			38,800 **[3]**
Tangible Fixed Assets			
Land & buildings	1,100,000 **[1]**		1,100,000
Equipment N15 &N16	62,000 **[2]**	28,800 **[3]**	33,200
Motor vehicles N17 & N18	157,000 **[3]**	37,240 **[3]**	119,760
	1,319,000	66,040	1,252,960
Financial Assets			
3% Investments			150,000 **[2]**
			1,441,760
Current Assets			
Closing stock		61,020 **[1]**	
Debtors N19	51,700 **[2]**		
Less bad debts provision N20	(2,585) **[1]**	49,115	
Bank		142,340 **[2]**	
Insurance prepaid N7		6,600 **[2]**	
Insurance claim (employee)		42,750 **[1]**	
Investment income due N21		1,875 **[2]**	
VAT N22		14,564 **[2]**	
		318,264	
Creditors: amounts falling due within 1 year			
Creditors N23	8,924 **[3]**		
Contingent liability	45,000 **[1]**		
Debenture interest due N24	4,500 **[2]**		
Corporation tax	25,000 **[1]**	(83,424)	234,840
			1,676,600
Financed By			
Creditors: amounts falling due after 1 year			
6% Debentures			300,000 **[2]**
Share Capital	**Authorised**	**Issued**	
Ordinary shares of €1 each	1,100,000	800,000	
5% Preference shares of €1 each	650,000	320,000	
	1,750,000 **[1]**	1,120,000 **[1]**	
Revaluation reserve N25		222,000 **[2]**	
Capital reserve		15,000 **[1]**	
Profit & loss balance		19,600 **[1]**	1,376,600
Capital Employed			1,676,600

N1	Purchases	526,000 – 32,000 – 9,200	484,800
N2	Closing stock	75,200 – 4,980 – 9,200	61,020
N3	Loss on disposal	35,000 – 12,950 – 16,000	6,050
N4	Depreciation - delivery vans	13,080 + 1,750 + 3,360 **or** 7,200 + 10,990	18,190
N5	Increase in BDP	2,080 – 2,585	505
N6	Patent written off	48,500/ 5	9,700
N7	Insurance/ insurance prepaid	26,400 x 9/12 26,400 x 3/12	19,800 6,600
N8	Loss on insurance claim	45,000 – 95% (42,750)	2,250
N9	Depreciation - equipment	(70,000- 8,000) – (28,000-4,000) 62,000 – 24,000= 38,000 38,000 – 33,200	4,800
N10	Depreciation - buildings	920,000 – 120,000 = 800,000 x 2%	16,000
N11	Salaries & general expenses	175,135 + 300 - 2,500	172,935
N12	Investment income	150,000 x 3% x 9/12	3,375
N13	Loan interest	14,400 + 1,800 **or** 7,200 + 9,000	16,200
N14	Patents	48,500 – 9,700	38,800
N15	Equipment	70,000 – 8,000	62,000
N16	Acc Dep - equipment	28,000 – 4,000 + 4,800	28,800
N17	Delivery vans	144,000 – 35,000 + 48,000	157,000
N18	Acc Dep - delivery vans	32,000 – 12,950 + 18,190	37,240
N19	Debtors	52,000 – 300	51,700
N20	Bad debt provision	51,700 X 5%	2,585
N21	Investment income due	3,375 – 1,500	1,875
N22	VAT	16,680 – 2,116	14,564
N23	Creditors	25,840 – 5,600 – 11,316	8,924
N24	Interest due	16,200 – 11,700	4,500
N25	Revaluation reserve	180,000 + 42,000	222,000
N26	Discount	2,900 + 1,600	4,500

Question 1(B) Final accounts of a manufacturing company

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(a) Manufacturing Account for North Strand Ltd for year ended 31/12/2025 [1]

Opening stock raw materials			96,400 **[3]**
Purchases raw materials	N1		524,200 **[3]**
Closing stock raw materials			(38,400) **[3]**
Cost of raw materials consumed			582,200
Direct Costs			
Hire of special machinery		32,400 **[2]**	
Factory wages	N2	265,700 **[3]**	298,100
Prime Cost			880,300
Factory Overheads			
Patent written off	N3	20,800 **[3]**	
General factory overhead	N4	144,050 **[6]**	
Depreciation plant & machinery	N5	90,000 **[4]**	
Repairs to machine	N6	4,000 **[1]**	
Depreciation on factory building	N7	9,750 **[3]**	268,600
			1,148,900
Add opening stock -work in progress			25,320 **[2]**
Less closing stock -work in progress			(32,100) **[2]**
			1,142,120
Profit on sale of machine	N8		(1,600) **[3]**
Less Sale of Scrap	N9		(8,800) **[3]**
Cost of Manufacture			**1,131,720**

Trading Profit and Loss Account of North Strand Ltd for year ended 31/12/2025

Sales	N10		1,534,500 **[4]**
Less Cost of Sales			
Opening stock		68,000 **[1]**	
Cost of manufacture		1,131,720 **[1]**	
Closing stock	N11	(84,400) **[3]**	(1,115,320)
Gross profit			419,180
Less Expenses			
Selling and Distribution Costs			
Selling expenses		102,345 **[2]**	
Administration Expenses			
Depreciation - buildings	N7	3,250 **[3]**	
Administration expenses		143,355 **[2]**	(248,950)
			170,230
Add Operating Income			
Reduction in BPD	N12	317 **[3]**	
Bad debt recovered	N13	1,300 **[2]**	1,617
Operating Profit			171,847
Investment income	N14		2,250 **[3]**
Debenture interest	N15		(10,800) **[4]**
Net Profit before Tax			163,297
Taxation			(22,000) **[1]**
Profit after Taxation			141,297
Dividend paid			(20,000) **[1]**
Retained profit			121,297
Transfer to debenture redemption reserve			(15,000) **[1]**
			106,297
Profit & loss balance 01/01/2025			24,990 **[1]**
Profit & loss balance 31/12/2025			131,287 **[1]**

(b) Balance Sheet of North Strand Ltd as at 31/12/2025

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Intangible Fixed Assets			
Patents N16			83,200 **[3]**
Tangible Fixed Assets	**Cost**	**Acc Dep**	**NBV**
Factory land & buildings N17 & N18	980,000 **[2]**	7,000 **[3]**	973,000
Plant and machinery N19 & N20	444,000 **[2]**	174,000 **[3]**	270,000
	1,424,000	181,000	1,243,000
Financial Assets			
3% Investments			180,000 **[2]**
			1,506,200
Current Assets			
Closing stock: raw materials	38,400 **[1]**		
work in progress	32,100 **[1]**		
finished goods	84,400 **[1]**	154,900	
Debtors N21	43,260 **[4]**		
Less bad debt provision N22	(2,163) **[1]**	41,097	
Bank N23		6,475 **[3]**	
VAT N24		16,165 **[2]**	
Investment income due N25		1,000 **[2]**	
		219,637	
Creditors: amounts falling due within 1 year			
Creditors N26	68,400 **[2]**		
Corporation tax due	22,000 **[1]**		
Debenture interest due N27	3,150 **[2]**	(93,550)	126,087
			1,632,287
Financed By			
Creditors: amounts falling due after 1 year			
6% Debentures			210,000 **[2]**
	Authorised	**Issued**	
Ordinary share capital	1,100,000	750,000	
Preference share capital	700,000	230,000	
	1,800,000 **[1]**	980,000 **[1]**	
Revaluation reserve N28		281,000 **[3]**	
Debenture redemption reserve N29		30,000 **[2]**	
Profit & Loss balance 31/12/2025		131,287 **[1]**	1,422,287
			1,632,287

N1.	Purchases of raw materials	525,000 – 800	524,200
N2.	Manufacturing wages	268,900 – 3,200	265,700
N3.	Patent written off	104,000/5	20,800
N4.	General factory overheads	121,200 +2,450 + 20,400	144,050
N5.	Depreciation - plant & machinery	16,000 +74,000 or 88,800 + 1,200	90,000
N6.	Repairs to machine	800 + 3,200	4,000
N7.	Depreciation - buildings	(800,000 – 200,000) 600,000 x 2% x 6/12 = 6,000 (980,000- 280,000) 700,000 x 2% x 6/12 = 7,000 6,000 + 7,000 = 13,000	75% = 9,750 25% = 3,250
N8.	Profit on sale of machinery	36,000 – 36,000 (100% depreciation) – 1600	1,600
N9.	Sale of scrap	10,400 – 1,600	8,800
N10.	Sales	1,550,000 - 15,500	1,534,500
N11.	Closing stock – finished goods	72,000 +12,400	84,400
N12.	Reduction in BDP	2163 – 2480	317
N13.	Bad debt recovered	975 /75%	1,300
N14.	Investment income	180,000 x 3% x 5/12	2,250
N15.	Debenture interest	9,000 + 1,800 **or** 4,500 + 6,300	10,800
N16.	Patent	104,000 – 20,800	83,200
N17.	Factory buildings	800,000 + 180,000	980,000
N18.	Acc Dep - buildings	95,000 + 13,000 – 101,000	7,000
N19.	Plant & machinery	480,000-36,000	444,000
N20.	Plant & machinery acc dep	120,000 – 36,000 + 90,000	174,000
N21.	Debtors	62,000 – 19,065 + 325	43,260
N22.	Bad debt provision	43,260 x 5%	2,163
N23.	Bank	4,250 + 1,250 + 975	6,475
N24.	VAT	12,600 + 3,565	16,165
N25.	Investment Income due	2,250 – 1,250	1,000
N26.	Creditors	48,000 + 20,400	68,400
N27.	Debenture Interest due	10,800 – 7,650	3,150
N28.	Revaluation reserve	180,000 + 95,000 + 6,000	281,000
N29.	Deb. redemption reserve	15,000 +15,000	30,000

Question 2 Cashflow Statement

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(a) Reconciliation of Operating Profit to Net Cash Flow from Operating Activities. [15]

	€	
Operating profit	154,890	**[1]**
Depreciation charge for the year N1	54,400	**[2]**
Add **loss** on sale of fixed assets N2	13,600	**[2]**
Less increase in stock	(21,000)	**[2]**
Less increase in debtors	(19,000)	**[2]**
Add increase in creditors	24,000	**[2]**
Add Increase in bad debt provision	760	**[2]**
Net Cash Inflow from Operating Activities	207,650	**[2]**

Reconciliation of Net Cash to Movement in Net Debt [5]

	€	
Increase in cash	6,400	**[1]**
Cash used to purchase liquid resources	15,000	**[1]**
Repayment of debentures	40,000	**[1]**
Change in net debt	61,400	
Net debt 01/01/2025	(224,000)	**[1]**
Net debt 31/12/2025	(162,600)	**[1]**

Cash Flow statement of Horan plc for the year ended 31/12/2025 [32]

	€	€
Operating Activities		
Net cash inflow from operating activities		207,650 **[1]**
Return on Investment and Servicing of Finance [1]		
Investment income received N3	2,250 **[2]**	
Debenture interest paid N4	(9,700) **[2]**	(7,450)
Taxation [1]		
Tax paid N5	(38,000) **[2]**	(38,000)
Capital Expenditure and Financial Investments [1]		
Payments to acquire buildings N6	(120,000) **[2]**	
Receipts from sale of machinery	35,000 **[2]**	
Purchase of investments	(12,000) **[2]**	(97,000)
Equity Dividends Paid [1]		
Equity dividends paid	(51,800) **[2]**	(51,800)
Net Cash Inflow before Liquid Resources and Financing		13,400
Management of Liquid Resources [1]		
Purchase of government securities	(15,000) **[2]**	(15,000)
Financing [1]		
Repayment of debentures	(40,000) **[2]**	
Receipts from issue of ordinary shares	40,000 **[2]**	
Receipts from share premium	8,000 **[2]**	8,000
Increase in cash		6,400 **[3]**

Workings

N1.	Depreciation on land & buildings Depreciation on machinery	58,000 – 45,000 = 13,000 41,400 13,000 + 41,400	54,400
N2.	Loss on sale of machinery	60,000 – 11,400 – 35,000	13,600
	Cost of disposed machine	480,000 – 420,000	60,000
	Depreciation on disposed machine	260,000 – 41,400 - 230,000	11,400
N3.	Investment income	650 + 2,000 – 400	2,250
N4.	Debenture interest	1,800 + 10,800 – 2,900	9,700
N5.	Taxation	60,000 + 52,000 - 74,000	38,000
N6.	Purchase of new buildings	920,000 – 800,000	120,000

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(b)

(i) Horan's operating profit and change in cashflow are different because earning profit does not always result in a corresponding change in cash balances.

<u>Profit but Not Cash:</u>

Credit sales increases profit but not cash. Debtors increased by €19,000.

Credit purchases reduces profit but not cash. Creditors increased by €24,000.

Loss on sale of fixed asset reduces profit but not cash. There was a loss on sale of €13,600.

Depreciation on fixed assets reduces profit but does not affect cash. Depreciation was €54,400.

Increase in bad debt provision reduces profit but has no effect on cash. There is an increase in the bad debts provision of €760.

<u>Cash but not Profit</u>:

Receipts from sale of fixed assets increases cash but has no immediate effect on profit. €35,000 was received from the sale of fixed assets.

Payments for the purchase of fixed assets reduces cash but has no immediate effect on profit. New fixed assets were purchased for €120,000.

Receipts from issue of shares and premium increases cash but has no immediate effect on profit. New shares were issued for €48,000.

Repayment of debenture reduces cash but has no immediate effect on profit.

€40,000 of Debentures were repaid.

Purchase of government securities reduces cash but has no immediate effect on profit. €15,000 was spent on government securities

(ii) Solvency is the ability of a company to pay all of its debts as they fall due.
A business is solvent if its total assets exceed its external/outside liabilities.
It is the most important indicator of a business's ability to survive in the long term.
Horan plc is solvent as its total assets of €1,517,480 are greater than its external liabilities of €528,900.

Question 3 Club Accounts

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(a) Statement of Accumulated Fund 01/01/2025

Assets		
Clubhouse & courts	700,000 **[1]**	
Acc. depreciation - clubhouse & courts	(42,000) **[1]**	658,000
Equipment	58,000**[1]**	
Acc. Depreciation- equipment	(17,400)**[1]**	40,600
Bar stock		12,335 **[1]**
Bar debtors		1,520 **[1]**
Government investments		33,000 **[3]**
Investment interest due		330 **[1]**
Levy due		1,200 **[1]**
		746,985
Liabilities		
Life membership	36,000 **[1]**	
Creditors	2,950 **[1]**	
Levy reserve fund	50,000 **[1]**	
Bank overdraft	4,200 **[1]**	
Subs prepaid	850 **[2]**	
Wages due	500 **[1]**	(94,500)
Accumulated Fund as at 01/01/2025		652,485 **[2]**

(b) **Income and Expenditure Account for Blackwater Tennis club for y/e 31/12/2025** **32**

		€	€
Income			
Bar profit	N1	19,725 **[4]**	
Subscriptions	N2	112,500 **[6]**	
Investment income	N3	1,320 **[3]**	
Annual grant		12,500 **[1]**	
Competition profit	N4	5,730 **[2]**	
Life membership	N5	4,800 **[2]**	156,575
Less Expenses			
Loan interest	N6	12,000 **[2]**	
Coaching wages	N7	5,820 **[2]**	
General expenses	N8	31,120 **[2]**	
Depreciation - clubhouse	N9	26,220 **[2]**	
Depreciation - equipment	N10	7,950 **[1]**	
Loss on sale - equipment	N11	3,500 **[3]**	(86,610)
Excess of Income over Expenditure			69,965 **[2]**

(c)

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(i)
This is a payment made to a club by its members to fund a special project such as an extension or floodlights. It must be used for the purpose for which it was collected. It is a capital receipt and is credited to a levy reserve fund. It is due to the members until it is used and therefore it is treated as a long-term liability in the balance sheet. Currently the members pay a levy of €100.

(ii)

1. Overall, I would or would not recommend increasing the membership fee as it will still be less than the current fee and levy payable.
2. Club has excess income this year of €69,965 which is very good.
3. Discontinuing the levy would reduce revenue by €25,000.
   Increasing the subscriptions would increase the revenue income by €12,500.
   The overall income would be reduced by €12,500.
   The members would be paying €50 less than previous years. The membership fee will be €50 more and the club may lose members resulting in a drop in revenue income.
4. The annual grant of €12,500, competition profit €5,730 and bar profit of €19,725 are not guaranteed.
5. There is €99,100 in the bank and €33,000 in investments.
6. The levy must be spent on the purpose for which it is intended and is ring fenced **whereas** the additional revenue income raised by an increase in subscription can be used wherever the committee decides is most beneficial (for revenue expenditure or capital expenditure) to provide more services/facilities which would attract more members.

N1. Bar Trading account Bar receipts (101,320 -1,520 + 1,600) <u>Less Cost of Sales</u> Opening stock Purchases (81,450- 2,950+ 3,100) Less closing stock Cost of sales Bar profit	 12,335 <u>81,600</u> 93,935 <u>(12,260)</u>	 101,400 <u>(81,675)</u> 19,725

N2.	Subscriptions 152,600 + 850 - 12,000 - 25,000 - 1,200 – 2,750 = 112,500
N3	Investments and investment interest 990 =9 months, 110 = 1 month 12m = 110 x 12 = 1,320 4% = 1,320 100% = 1,320/4% = 33,000
N4	Competition profit 24,320 – 18,590 = 5,730
N5	Life membership 36,000 + 12,000 = 48,000 /10 = 4,800
N6	Loan interest 200,000 x 8% x 9/12 = 12,000
N7	Coaching wages 6,320 – 500 = 5,820
N8	General expenses 36,320 – 5,200 = 31,120
N9	Depreciation - clubhouse 700,000 x 3% = 21,000 232,000 x 3% x 9/12 = <u>5,220</u> 26,220
N10	Depreciation - equipment 58,000 – 30,000 + 25,000 = 53,000 x 15% = 7,950
N11	Loss on disposal 30,000 – 9,000 – 17,500 = 3,500 Dep: 30,000 x 15% x 2 years = 9,000

Question 4 Creditors Control Account

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(a) Adjusted Creditors Control Account

Details		**€**		**Details**		**€**	
Balance b/d		850	**[2]**	Balance b/d		68,320	**[2]**
Credit note	(i)	7,350	**[3]**	Purchases	(ii)	2,100	**[4]**
Balance c/d		63,521	**[1]**	Interest	(iii)	60	**[4]**
				Discount disallowed	(iv)	340	**[3]**
				Restocking charge	(v)	51	**[4]**
				Refund	(vi)	850	**[3]**
		71,721				71,721	
				Balance b/d		63,521	

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(b) Schedule of Creditors Account Balances

Details		**€**		**€**	
Balance as per list of creditors				64,459	**[3]**
Add					
Purchases	(ii)	5,425	**[3]**		
Interest	(iii)	50	**[3]**		
Discount disallowed	(iv)	100	**[4]**		
Refund	(vi)	850	**[4]**	6,425	
				70,884	
Deduct					
Credit note	(i)	6,615	**[4]**		
Restocking charge	(v)	748	**[4]**	(7,363)	
Balance as per adjusted Control Account				63,521	**[1]**

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(c)

(i) The figures for the creditors control account and the schedule of creditors are taken from.

- Credit purchases from purchases day-book
- Credit purchases returns from purchases returns day-book.
- Payments made to suppliers are posted from analysed cashbook and any discounts received.
- General journal for other less common entries (e.g. payment of creditors using fixed assets)
- The creditors personal ledger.

(ii) A bill payable:

- Is a written promise to pay suppliers/creditors a stated sum of money at some future date.
- It has the effect of reducing the amount owed to creditors.
- It is treated as a liability due within one year in the Balance Sheet.

Question 5 Interpretation of Accounts

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(i) $\frac{\text{Creditors}}{\text{Credit purchases}} \times \frac{12}{1} = 2 \text{ Months}$

$\frac{28{,}000}{\text{Credit Purch}} \times 12 = 2$

$\frac{28{,}000 \times 12}{x} = 2 \qquad x = 168{,}000 = \text{Credit purchases}$

Credit purchases = 30% of total purchases

Cash purchases = 70% of total purchases

168,000 ÷ 30 x 70 = €392,000 = Cash purchases

(10)

(ii) $\text{Return on Capital Employed} = \frac{\text{Net Profit + interest – investment income}}{\text{Capital Employed}} \times \frac{100}{1}$

$\frac{121{,}500 + 17{,}500 - 6{,}000 \times 100}{871{,}000} = \frac{133{,}000 \times 100}{871{,}000} = \mathbf{15.27\%}$ **(10)**

(iii) $\text{P/E ratio} = \frac{\text{Market Price}}{\text{EPS}}$

$\frac{125c}{27.74c} =$ **4.51 years** **(10)**

$\text{EPS} = \frac{121{,}500 - 5{,}000}{420{,}000} = 27.74 \text{ cent}$

(iv) $\text{Gearing} = \frac{\text{Debentures + Preference shares} \times 100}{\text{Capital Employed}} =$

$\frac{250{,}000 + 100{,}000 \times 100}{871{,}000} =$ **40.18% or** Debt to Equity = 67.18%

(10)

(v) Dividend Yield

$\frac{\text{DPS}}{\text{MP}} \times 100$

$\frac{8.57c}{125c} \times 100 =$ **6.86%** **(10)**

$\text{DPS} = \frac{41{,}000 - 5{,}000}{420{,}000} = 8.57 \text{ cent}$

(b)

Performance

40

Profitability [7]
Power plc is a profitable company.
The return on capital employed in 2025 is 15.27%.
Profitability has improved compared to 2024 when the return was 14%.
This is well above the return from risk-free investments of 1% - 3% and the cost of borrowing of 7%.
Above/better than return of 5% to preference shareholders.
This indicates a more efficient use of its resources this year.
The earnings per share has increased from 22 cent in 2024 to 27.74 cent in 2025. All very positive trends.

Dividend Policy [5]
In 2025 the dividend cover is 3.24 times. (30.89% of the profits are paid out to the ordinary shareholders).
In 2024 the dividend cover was 3.14 times. (31.82% of the profits are paid out to the ordinary shareholders).
This is an improving trend.
Debenture holders would be happy that Power plc is retaining more of the profits for future expansion and repayment of loans.

State of Affairs

Liquidity [6]

The acid test/quick ratio in 2025 is 2.33:1.
The acid Test ratio in 2024 was 1.80:1. This is an improving trend.
May be a disimproving trend and may be too conservative and business should consider investing funds in fixed/ financial assets that would generate a return.
The company is liquid/above the ideal ratio 1:1
This means that for every €1 of short-term debt the firm has €2.33 in liquid assets to cover that debt.
There should be no issue meeting interest repayments.

Gearing [8]

Gearing ratio in 2025 is 40.18% (debt to capital employed)/67.18% (debt to equity)
The company is lowly geared as this is below 50%/100% (debt to equity).
This means the business is financed more by equity than debt and is not reliant on outside investors.
Gearing in 2024 was 36%, the trend is dis-improving. Power plc is becoming more reliant on debt, but the company is still lowly geared.
The interest cover in 2025 is 7.6 times. The interest cover in 2024 was 3.5 times, so this is an improving trend.
This indicates that the company has sufficient profits to meet interest payments.

Security [6]

Debentures are €250,000 and are secured against the fixed assets and are due for repayment in 2028.
There is no evidence of any fund to repay debenture due to be repaid in full in three years.
Tangible fixed assets are valued at €602,000/€652,000/€752,000.
There is sufficient security to cover the existing debentures.
The debenture holders should question the depreciation policy of the business to ascertain the real value of the fixed assets.
Power plc also has investments which cost €100,000 and are now worth €115,000. This would indicate good investment decisions/efficient management.
Investments are generating €6,000 in interest every year.

Prospects

Sector [5]
Power plc manufactures medical weight loss products.
Short term prospects are good as:

- Scientifically developed injections/ products are very popular at moment with several high-profile personalities displaying results of these products.
- Medical weight loss products are being prescribed by medical professionals, so people are more inclined to trust them.
- The cost is covered/part covered by private health insurance/government medical card in some circumstances.

Long term prospects are mixed as:

- There are no studies into the long-term effects of taking the medication.
- The price is very expensive and not available to all so a large part of market is priced out.
- There will be more companies producing their version of product, so there will be intense national and international competition.

Conclusion [3]
Overall debenture holders should be satisfied with the company. It is profitable, liquid and has low gearing.

(c)
(i) **Differences between a public and private limited company:** **10**

- Limited number of shareholders in a private company compared with no maximum in a public limited company.
- Name ends with Ltd./DAC in a private company compared with plc in a public limited company.
- Shares cannot be bought on the stock exchange in a private company whereas they are bought on the stock exchange in a public limited company.
- Less reporting requirements in a private company but much stricter rules and reporting requirements in a public limited company.
- A private limited company is set up mainly by family businesses and start-ups whereas a public limited company is set up by bigger companies looking to expand or requiring large investment capital.
- Much lower initial capital required in a private limited company as compared with a public limited company.
- In a private limited company one director is required who can also be the secretary whereas in a public limited company a minimum of 2 directors is required with a qualified company secretary.

(ii) Having examined accounts what advice would you give in order to ensure they pay the debenture in full by the due date?

- Too much money kept in bank (€75,000). Move some funds to interest generating funds or repay debenture.

- Closing stock is very high (€58,000). Need to have better stock control procedures in place.

- Sell investments to repay debenture. Currently worth €115,000 and the interest received 6% is less than any interest payable on debenture of 7%.

- Sell some ordinary shares. There are 280,000 ordinary shares available and profitability and dividend policy looks good to potential shareholders.

- Sell some preference shares. There are 100,000 preference shares available. The 5% dividend is less than interest rate 7%. There is no charge over fixed assets.

Question 6

Published Profit and Loss Account of Olivette plc for year ended 31/12/2025 **40**

	€	
Turnover	2,330,000	[2]
Cost of sales	(1,660,500)	[5]
Gross profit	669,500	
Distribution costs	(293,000)	[5]
Administration expenses	(206,200)	[5]
Other operating income	99,600	[5]
Operating profit	269,900	
Exceptional item	69,000	[2]
Income from financial investments	3,600	[3]
Interest payable	(21,000)	[3]
Profit on ordinary activities before taxation [1]	321,500	
Tax on profit on ordinary activities	(73,000)	[2]
Profit on ordinary activities after taxation	248,500	
Dividends paid	(35,000)	[2]
Retained profit	213,500	
Profit and loss balance 01/01/2025	77,000	[2]
Profit and loss balance 31/12/2025	290,500	[3]

Balance Sheet of Olivette plc as at 31/12/2025

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Fixed Assets		€	€
Intangible			51,000 **[1]**
Tangible			1,518,400 **[2]**
Financial			120,000 **[1]**
			1,689,400
Current Assets			
Closing stock		105,000 **[2]**	
Debtors		194,600 **[4]**	
Bank		15,000 **[1]**	
		314,600	
Creditors: amounts falling due within 1 year **[1]**			
Creditors	138,500 **[1]**		
Taxation	73,000 **[1]**		
Other creditors	68,000 **[5]**	(279,500)	
Net Current assets			35,100
Total assets less current liabilities			1,724,500
Financed by			
Creditors: amounts falling due after 1 year			
7% Debentures			300,000**[2]**
Capital		800,000 **[2]**	
Revaluation reserve		334,000 **[2]**	
Profit carried forward		290,500 **[1]**	1,424,500
Capital employed			1,724,500

Workings:

N1	Cost of sales	107,000 + 1,655,000 – 5,000 - 105,000 + 8,500	1,660,500
N2	Distribution costs	194,000 + 4,000 +2,800 + 79,600 + 12,600	293,000
N3	Administration expenses	127,000 + 27,000 + 16,000 + 11,200 + 25,000	206,200
N4	Other operating income	17,000 + 12,600 + 70,000	99,600
N5	Rental income	22,000 + 72,000 – 72,000 x 4/12 = 22,000 + 72,000 – 24,000	70,000
N6	Investment income	120,000 x 4% x 9/12 3,600 - 2,800 = 800 due	3,600 800 due
N7	Debenture interest	300,000 x 7% = 21,000 21,000-18,000 = 3.000 due	21,000 3,000 due
N8	Patent	2022 = 10 years, 2025 = 7 years 59,500/7 = 8,500 59,500 – 8,500	51,000
N9	Debtors	196,000 - 7,800 + 800 + 5,600	194,600
N10	Other creditors	16,000 + 3,000 + 25,000 + 24,000	68,000
N11	Depreciation - buildings	700,000 x 2% = 14,000 80% = 11,200 20% = 2,800	11,200 2,800 14,000
N12	Depreciation - motor vehicles	490,000 – 92,000 = 398,000 398,000 x 20%	79,600
N13	Revaluation reserve	250,000 + 84,000	334,000

1. Tangible fixed assets and stock [5]

Buildings were revalued at the end of the year and have been included in the accounts at their revalued amount.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings:	2% per annum straight line basis;
Vehicles:	20% per annum on a reducing balance basis.

Stocks are valued on a first in first out basis at the lower of cost or net realizable value.

2. Operating Profit **[5]**

The operating profit of €269,900 is arrived at after charging

• Depreciation	€93,600
• Patent amortised	€8,500
• Auditors fees	€16,000
• Legal fees	€25,000

3. Dividends **[4]**

Preference dividend	€10,000	(5 cent per share)
Ordinary dividend	€25,000	(4.17 cent per share)

4. Contingent Liability **[3]**

The company is being sued by a former employee who is claiming unfair dismissal and is seeking compensation for €95,000 and legal fees. The company's legal team have advised that the company is unlikely to be liable for the full amount of compensation. The company has legal fees to pay of €25,000.

5. Tangible Fixed assets **[7]**

	Land & Buildings	**Vehicles**	**Total**
	€	**€**	**€**
Cost/ value 01/01/2025	1,050,000	490,000	1,540,000
Disposal	(100,000)		(100,000)
Revaluation Surplus	250,000		250,000
Cost/value at 31/12/2025	1,200,000	490,000	1,690,000
Acc. depreciation 01/01/2025	70,000	92,000	162,000
Depreciation charge for year	14,000	79,600	93,600
	84,000	171,600	255,600
Transfer on revaluation	(84,000)		(84,000)
Acc. depreciation 31/12/2025	0	171,600	171,600
Net book value 01/01/2025	980,000	398,000	1,378,000
Net book value 31/12/2025	1,200,000	318,400	1,518,400

(b) **10**

(i) It is important that financial statements are properly regulated for the following reasons:

- To ensure the financial statements are consistent from year to year.
- To ensure financial statements can be compared with other businesses.
- To ensure financial statements comply with national and international law.
- To ensure that the required information is available to all stakeholders and users of financial accounts.
- Good regulation makes fraud less likely and helps build trust among the investing public.

(ii) The main functions and responsibilities of directors in relation to financial information are:

- Keep a proper set of financial records so that financial statements can be prepared.
- Safeguard the assets of the firm.
- Prepare financial statements.
- Select the most suitable policies e.g. depreciation policy.
- State that accounting standards have been properly followed.
- Present the financial statements to shareholders at the annual general meeting.
- Prepare a directors’ report containing specific information.
- Ensure accounts are audited
- Ensure taxation returns are made.

Question 7 Correction of errors.

(a) General Journal

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General Journal			
		Debit	**Credit**
(i)	Sales	1,200 **[2]**	
	Suspense	2,800 **[2]**	
	Debtors		4,000 **[2]**
	Equipment		10,000 **[2]**
	Provision for depreciation - equipment	4,000 **[2]**	
	Cash	5,000 **[2]**	
	P & L **(loss)**	1,000 **[3]**	
	Being correction of incorrect recording of equipment sold for cash **[1]**		
(ii)	Purchases	6,000 **[2]**	
	Suspense	1,380 **[2]**	
	VAT	1,380 **[2]**	
	Equipment		7,380 **[2]**
	Creditors		1,380 **[2]**
	Being the correction of VAT inclusive figure for purchases entered in equipment and VAT exclusive figure in creditors account **[1]**		
(iii)	Purchases	1,200 **[2]**	
	Creditors		1,200 **[2]**
	Being correction of error of omission of restocking charge **[1]**		
(iv)	Insurance (P&L)	7,425 **[2]**	
	Insurance prepaid (BS)	2,475 **[3]**	
	Office Expenses	3,000 **[3]**	
	Capital		12,900 **[2]**
	Being the posting of annual insurance premium and office expenses paid from F Kearns personal account. **[1]**		
(v)	Creditors	30,080 **[2]**	
	Purchases Returns		14,240 **[2]**
	Suspense		15,840 **[2]**
	Being the correction of incorrect recording of purchases returns and a restocking charge **[1]**		

(b) Suspense Account

8

Suspense Account

Original difference	11,660 **[2]**	Creditors/ Purchases returns (v)	15,840 **[2]**
Sales/Debtors (i)	2,800 **[2]**		
Equipment/Creditors (ii)	1,380 **[2]**		
	15,840		15,840

(c)

14

Statement of Corrected Net Profit				
Original Net Profit			71,200	**[1]**
Add				
Purchases returns (v)	14,240	**[1]**	14,240	
			85,440	
Less				
Sales (i)	1,200	**[1]**		
P & L loss/ Loss on disposal (i)	1,000	**[2]**		
Purchases (ii)	6,000	**[1]**		
Purchases / restocking (iii)	1,200	**[1]**		
Office Expenses (iv)	3,000	**[1]**		
Insurance (iv)	7,425	**[2]**	(19,825)	
Correct Net Profit			65,615	**[4]**

(d) **Balance Sheet F Kearns as at 31/12/2025** **20**

	€	€	€
Fixed Assets	**Cost**	**Dep**	**NBV**
Premises	660,000		660,000
Equipment Cost (60,000 – 10,000 -7,380) Accumulated depreciation (24,000- 4,000)	42,620**[2]**	20,000 **[2]**	22,620
	702,620	20,000	682,620
Current Assets			
Stock		74,800 **[2]**	
Debtors(-4,000)		28,600 **[2]**	
Cash (+5,000)		15,100 **[2]**	
Insurance prepaid		2,475 **[2]**	
		120,975	
Creditors: amounts falling due within 1 year			
Creditors (45,500+1,380 +1,200-30,080 +11,660)	29,660 **[4]**		
Bank	21,400		
VAT (-1,380)	8,220 **[2]**	(59,280)	61,695
			744,315
Financed by			
Capital (+12,900)		712,900 **[2]**	
Profit carried forward		65,615	
		778,515	
Less drawings		(34,200)	744,315
			744,315

(e) **8**

(i) A Trial balance is prepared in order to check the accuracy of double entry bookkeeping before preparing final accounts.
In a trial balance the total of the debit balances should equal the total of the credit balances as every debit should have a corresponding credit.

(ii) **Errors not revealed by the trial balance:**

Error of original entry: errors made in books of first entry
e.g. in no (v) purchase of €16,000 entered as €1,600 in correct side of correct accounts.

Error of Principle: correct amount, correct side but incorrect class of account
e.g. in (i) purchase of trading goods of €6,000 plus VAT entered in equipment account.

Error of complete omission: transaction not entered in the accounts e.g. no (iii) and (iv) above.

Error of commission: posting to correct side, correct amount, correct class of account but wrong account. e.g. credit sales to M. Murphy debtor posted to M Murray debtor in error.

Compensating errors: errors of equal value cancelling each other out: e.g. sales of €1,000 entered as €1,000 on credit side of Purchases account and €1,000 entered on the debit side of the debtors account.

Complete reversal of entries: correct account and correct figure but wrong sides
e.g. when expenses are paid by cheque and in error one debits the bank account and credits the expenses account.

Question 8 Job Costing and Under and Over Absorption

26

(a)

Overhead	**Basis**	**Total**	**Production 1**	**Production 2**	**Service A**	**Service B**
Indirect labour	Given	289,000	100,000	89,000	45,000	55,000
Indirect materials	Given	615,000	315,000	205,000	60,000	35,000
Factory cleaning	Floor area **[1]**	27,000	13,500 **[1]**	8,100 **[1]**	4,050**[1]**	1,350 **[1]**
Machine maintenance	Machine hours **[1]**	33,000	24,750 **[2]**	8,250 **[2]**	0	0
Factory light & heat	Volume **[1]**	72,000	27,000 **[1]**	21,600 **[1]**	18,000 **[1]**	5,400 **[1]**
Depreciation machinery	Book value **[1]**	42,000	21,000 **[1]**	14,700 **[1]**	4,410**[1]**	1,890 **[1]**
		1,078,000	501,250 **[2]**	346,650 **[2]**	131,460**[1]**	98,640**[1]**

(B)

(i) Transfer Service Department Costs

8

		Production 1	**Production 2**	**Service A**	**Service B**
		€	**€**	**€**	**€**
Overhead Costs		501,250	346,650	131,460	98,640
Apportion Service A	Labour hours	39,438 **[2]**	92,022 **[2]**	(131,460)	
Apportion Service B	Labour hours	29,592 **[2]**	69,048 **[2]**		(98,640)
		€570,280	€507,720	0	0

2

(ii) Explain why it is necessary to transfer the service department overheads to the production departments.

Service departments cannot recover costs because no production takes place in these departments. They are secondary to production departments.
As a result, service departments costs must be transferred to production departments using machine hour/ labour hour/per unit etc.
Overheads can only be recovered through production so they are included as a cost of production.

8

(C) Calculating Overhead Absorption Rate

	Production 1	Production 2
	(Machine Hours)	(Labour Hours)
Budgeted Overheads Budgeted Hours	570,280 **[2]** 90,000 **[2]**	507,720 **[2]** 105,000 **[2]**
	€6.34 per machine hour	€4.84 per labour hour

(d) Selling Price of Job 226 18

			€	
Materials		18,000 **(1)** + 3,900**(1)**	21,900.00	
Labour		4,000 **(1)** + 10,500**(1)**	14,500.00	
Prime Cost			36,400.00	
Overheads:				
Production department 1	60 mh x €6.34		380.40	**[3]**
Production department 2	120lh x €4.84		580.80	**[3]**
Production Cost		80%	37,361.20	**[3]**
Profit		20%	9,340.30	**[2]**
Selling Price		100%	46,701.50	**[3]**

(e)

Under and Over Absorption
(i) 11

	Production dept. 1	Production dept. 2	Total Overhead
Actual overhead incurred	€599,320 **[1]**	€489,200 **[1]**	€1,088,520 **[1]**
Overhead absorbed			
93,000 Mh x €6.34	€589,620 **[2]**		
104,000 Lh x €4.84		€503,360 **[2]**	€1,092,980 **[1]**
(Under)/over absorbed	(€9,700) **[1]**	€14, 160 **[1]**	€4,460 **[1]**

(ii) 3

In production department 1 the costs incurred were €9,700 greater than expected/budgeted and therefore profits are €9,700 less than budgeted.

In production department 2 the costs incurred were €14,160 less than expected/budgeted and therefore profits are €14,160 more than budgeted.

Overall, the costs incurred were €4,460 less than budgeted/expected and profits are €4,460 more than budgeted.

Impact on Business 4

Profits are greater than budgeted**.** Good for business and shareholders.

Danger that the company may have costed their products too high. The firm may be less competitive and may lose customers as a result.

Overvalued closing stock resulting in incorrect higher reported profits/inaccurate financial statements.

May lead to unnecessary cost cutting e.g. layoffs.

Question 9 Budgeting

(a) Production Budget

11

	Jan	**Feb**	**Mar**	**Apr**	**May**
Sales (units)	13,500 **[1]**	14,550 **[1]**	16,500 **[1]**	18,000 **[1]**	18,750
Opening stock	-	(4,365) **[1]**	(4,950) **[1]**	(5,400) **[1]**	(5,625)
Closing stock	4,365**[1]**	4,950 **[1]**	5,400 **[1]**	5,625 **[1]**	5,760
Production (units)	17,865	15,135	16,950	18,225	18,885

(b) Raw Material Purchases Budget

13

	Jan	**Feb**	**Mar**	**Apr**	**May**
Production (units)	17,865 **[1]**	15,135	16,950	18,225	18,885
Materials per unit	X 4 **[1]**	X 4	X 4	X 4	X 4
Production requirements in kg	71,460 **[1]**	60,540	67,800	72,900	75,540
Opening stock	-	(12,108) **[1]**	(13,560) **[1]**	(14,580) **[1]**	
Closing stock	12,108 **[1]**	13,560 **[1]**	14,580 **[1]**	15,108 **[1]**	
Purchase in kg	83,568 **[1]**	61,992	68,820	73,428	
Price per unit	X €3 **[1]**	X €3	X €3	X €3	
Purchases in **€**	€250,704	€185,976	€206,460	€220,284 **[1]**	

(c) Cash Budget Clarke Ltd.

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	Jan	**February**	**March**	**April**
Receipts	€	€	€	€
Cash sales	76,950 **[1]**	82,935 **[1]**	94,050 **[1]**	102,600 **[1]**
Credit sales		324,000 **[1]**	349,200 **[1]**	396,000 **[1]**
Total Receipts	76,950	406,935	443,250	498,600
Payments				
Purchases		250,704 **[1]**	185,976 **[1]**	206,460 **[1]**
Wages	35,250 **[1]**	36,825 **[1]**	39,750 **[1]**	42,000 **[1]**
Variable overheads	89,325 **[1]**	75,675 **[1]**	84,750 **[1]**	91,125 **[1]**
Fixed overheads	19,050 **[1]**	19,050	19,050	19,050
Equipment	60,000 **[1]**			
Loan instalment		1,000 **[1]**	1,000	1,000
Loan interest	240 **[1]**	235 **[1]**	230 **[1]**	225 **[1]**
Total Payments	203,865	383,489	330,756	359,860
Net cash	(126,915) **[1]**	23,446 **[1]**	112,494 **[1]**	138,740**[1]**
Bank loan	48,000 **[1]**			
Opening cash	35,000 **[1]**	(43,915)	(20,469)	92,025
Closing Cash	(43,915)	(20,469)	92,025	230,765 **[3]**

(d) Budgeted Trading and Profit and Loss Account Clarke Ltd for the 4 months ended 30/04/2027

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Sales		1,876,500 **[1]**
Less Cost of Sales		
Purchases	863,424 **[1]**	
Less closing Stock:		
Raw materials: (15,108 x 3)	(45,324) **[1]**	
Finished goods: (5,625 x 22)	(123,750) **[1]**	(694,350)
Gross Profit		1,182,150
Less Expenses:		
Wages	153,825 **[1]**	
Variable overheads	340,875 **[1]**	
Fixed overheads	76,200 **[1]**	
Depreciation (4 x €950)	3,800 **[1]**	
Discount (1,876,500 x 20% x 5%)	18,765 **[1]**	(593,465)
Operating Profit		588,685
Interest		(930) **[1]**
Net Profit		587,755 [2]

(e) (i) Recommendations to Clarke Ltd:

10

Production Budget

- Reduce closing stocks requirements from 30%.

Purchases Budget

- Reduce closing stocks requirements from 20%.
- Shop around and reduce the purchase price for material X to lower than €3

Cash Budget

- Need to arrange an overdraft of €43,915 to cover deficit in January and February
- Defer payment of purchases in February of €250,704 to March and eliminate need for overdraft in February
- Arrange short term investments for some of surplus in March €92,025 and April €230,765.
- Shop around for lower fixed overheads like rent and buildings insurance to get better value.
- Reduce commission on sales revenue from 5%.
- Rent rather than buy equipment.

(ii) Differences between Management and Financial Accounting

	Management Accounting	**Financial Accounting**
Users	**1. Internal**: used by managers to help in future planning and decision making.	**1. External and Internal**: used by managers, shareholders and creditors to assess past performance.
Focus	**2. Forward Looking:** Concerned with planning for the future and provides information for planning and budgeting.	**2. Records past Events**: concerned with recording past events. Information is in the form of Profit and Loss account, Balance sheet and Cashflow statement.
Depth	**3. Micro – Accounting**: providing information to various departments. Information is for cost centers/departments.	**3. Macro-Accounting**: providing information about the performance of the whole business.
Frequency	4. Prepared **regularly**, whenever required by managers.	4. Prepared on an **annual** basis.
Regulation	5. **Not governed** by any government regulations.	**5. Governed** by Companies Acts and Accounting Standard such as FRS's.

Annotation	Use
	Correct element (n marks)
	No marks awarded. Answer incorrect or insufficient
	Refer to notes
	Page seen by examiner / Information not valid
	Surplus answer or part of answer. Marks awarded elsewhere.
	Minus one mark -Penalty, Incorrect Calculation, Misplaced Figure, Non-Transfer, Incorrect transfer and Repeated work
	Indicates that half marks have been awarded.
	Underline.