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## No 6: Business subjects

Thursday,  
February 5th, 2015

Guide to Leaving Cert business, accounting and economics



**THE IRISH TIMES**



### State of affairs

Graphs, charts and sample answers for higher and ordinary level economics  
Page 15-23



**Strictly business**  
Everything you need to know Pages 2-7



**Held to account**  
Revision and exam tips  
Pages 8-15



## What's Inside

## Exam Times

No 6: Business Subjects

## Business

2 Short-answer questions and ABQs for higher level

5 Long questions for higher level

6 Short-answer and long questions for ordinary level

## Accounting

(Higher level)

8 Overview and ratio analysis

10 Club accounts, cash flow and job costing

13 Final account adjustments

## Economics

15 Nine top tips for the economics exam

16 Topical areas for higher level

20 Ten sample questions in Section B for higher level

23 Sample questions for ordinary level

Next Thursday  
Leaving Cert  
Geography,  
history and  
home economics

Exam Times  
Online  
For more from  
the Institute  
of Education  
and The Irish  
Times visit  
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## Welcome

Welcome to Issue 6 of our Exam Times series for 2014/2015, a collaboration between the Institute of Education and *The Irish Times*.

Written by senior teachers at the Institute, this week's supplement covers Leaving Certificate accounting, economics and business.

Given Ireland's recent economic history and the challenges the country still faces, all three subjects should be of relevance and interest to students and general readers.

This guide focuses on key areas of the syllabus, with sample questions and answers, as well as advice regarding how to make the best use of the



remaining study time, exam timing, paper structure and more. We hope that students and their parents will find the information contained in this guide interesting and beneficial.

**Peter Kearns**  
Director, the Institute of Education

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## Business Short Answer Questions and ABQ (higher)

## Structured approach



## William Murphy

Focus on well structured answers and strict timing to maximise your marks in the exam

The current Leaving Certificate business course was first introduced in 1999, so students have 16 past exam papers to practice with before sitting the exam in June.

Reaction to business papers over the years has generally been favourable. Recently, the examiner has asked more targeted and specific questions at higher level and examined some areas of the syllabus for the first time. Students are therefore advised to have a thorough knowledge of all aspects of the course.

It can be useful to look over ordinary level exam papers to tease out areas of the syllabus that may not yet have appeared on the higher-level paper.

This guide looks at the higher and ordinary level papers and focuses on the important issue of timing and how best to structure answers to maximise marks in the exam. Previous exam questions are presented with sample answers and the official marking scheme.

## Short Answer Questions

The short questions account for 20 per cent of the exam, therefore you have a maximum of 36 minutes to spend on them. You must answer eight of the 10 questions. Write two points for every short question.

Your first point should be a definition. Your second can be an advantage or disadvantage or any other point you know, but if the question asks you to illustrate, your second point must be a fully explained example. Fill in all the lines.

## Sample questions

■ *Higher level, 2014, Q3*  
"The goal of the World Trade Organisation (WTO) is to reduce protectionism and allow free trade." Illustrate your understanding of the underlined term.

66

Recently, the examiner has asked more targeted and specific questions at higher level

## Solution

■ Note: Remember that for 10 marks, two separate points are required. Give detail in each point. Also, the word "illustrate" means that you *must* give a fully explained example.

1. Protectionism is when countries use barriers to trade to try to restrict foreign imports and/or increase their own exports in order to help their indigenous businesses to do well.

2. For example, to reduce the number of foreign imports, a country puts a limit (called a quota) on the amount of foreign imports it will allow.

■ *Higher Level, 2013, Q1*

Explain the term "Constructive Dismissal".

## Solution

■ Note: Remember that for 10 marks, two separate points are required. Give detail in each point.

1. This is where an employee is treated so badly by his employer that he cannot take it any longer and resigns from the job. This is illegal under the Unfair Dismissals Act 1977/2007.

2. The employee can take a case against the employer to a rights commissioner. But, the employee must prove that he was forced to resign.

## Applied Business Question

The ABQ accounts for 20 per cent of the exam, therefore you have a maximum of 36 minutes to spend on it. You must answer all three questions. Read the questions first so that you know what to look out for in the story. As a general rule, divide the marks by five to get the number of points required, but usually no more than five points are required.

For each point, give a heading, a two-sentence explanation, and an advantage or disadvantage if you are asked to evaluate, analyse, advise or discuss. Finally, quote directly from the story to link each point you have made to the business in the ABQ.

## Sample question

■ *Higher level, 2010, Applied Business Question*

**Castlewest Hotel and Conference Centre**  
Castlewest Hotel and Conference Centre was established by Mary Cullen in 1994. Having worked in senior management positions within the hospitality sector for many years, Mary identified a niche in the local market for a hotel providing a high standard of service and comfort, while offering customers value for money. Located in the west of the country, Castlewest Hotel and Conference Centre enjoys an excellent reputation for delivering a personal and professional service to holidaymakers, business and passing trade. Independent online reviews of the hotel continue to compliment the very helpful and friendly staff. The hotel was totally refurbished and extended to include a state-of-the-art Conference Centre in 2005.

A significant investment in information



■ **Students Alexander Bubnov and Sorcha Whooley at the Institute of Education.** PHOTOGRAPH: BRENDAN DUFFY

and communications technology (ICT) has taken place within the hotel in recent years. The marketing manager, Pat Butler, redesigned the website to include an online booking facility, which also provides a customer database. Complimentary wi-fi (internet access) is available throughout the hotel, while the conference centre is equipped with the latest video and audio conferencing facilities. Technology is also used in the day-to-day operations of the hotel, from stock ordering to managing the hotel's accounts.

Mary Cullen adopts a hands-on approach in her role as general manager and can be seen daily walking around the hotel, talking to staff and customers and getting feedback. Despite her long working hours, she is also president of the local Chamber of Commerce. Using the hotel intranet, Judy O'Brien, the assistant manager, provides a weekly update to all staff on the hotel's performance. She has also developed a voluntary suggestion scheme where staff are encouraged to come up with innovative ideas for improvements, for which they are rewarded. Recently Dylan Jones, the head

chef, was named "Employee of the Month" for introducing a "lunch to go" menu, which has increased weekday lunch sales.

Bookings and sales overall have fallen in the past 18 months, as individuals and businesses have cut spending. Hotel rates have been reduced in an effort to attract more business, and a range of costcutting measures were introduced, including closure of the hotel for the month of January. Further cuts will be necessary to ensure the continued viability and success of the business.

(A) (i) Explain the term "intrapreneur" (ii) Illustrate, using examples from the above text, how "intrapreneurship" benefits Castlewest Hotel and Conference Centre. (20 marks)

(B) Discuss the impact that investment in technology has had on Castlewest Hotel and Conference Centre. Refer to the above text in your answer. (30 marks)

(C) Evaluate how Mary can use her management skills to ensure the continued success of her hotel. Refer to the above text in your answer. (30 marks)

**Solution to (a) (i)**  
*Intrapreneur (3+2=5 marks)*

1. An intrapreneur is an employee working within a business who shows enterprise.  
2. He uses his initiative and thinks up a new idea to help the business he works in, without being asked to.

**Solution to (a) (ii)**

■ Note: 1) Give a heading for each point, 2) then explain that point in two to three sentences, 3) then copy out a sentence from the story to link each point to the ABQ, and 4) remember not to use the same quote twice.

*Competitive Advantage (4+4=8 marks)*

1. A business that encourages employees to improve the way things are done or to create new products can enjoy economic stability.

2. New ideas help the business to adapt to changes in the marketplace and thus remain competitive. This gives the firm a better chance of survival.

Recently Dylan Jones, the head chef, was named "Employee of the Month" for introducing a "lunch to go" menu, which has increased weekday lunch sales.

*Improved Motivation (4+3=8 marks)*

1. Giving employees the opportunity to be inventive and creative can help to make their jobs more challenging and rewarding.

2. This leads to greater job satisfaction and productivity.

In Castlewest Hotel and Conference Centre, staff are encouraged to come up with innovative ideas for improvements. This motivates them to work hard. This has improved the hotel's reputation as independent online reviews continue to compliment the very helpful and friendly staff.

**Solution to (b)**

■ Note: 1) Give a heading for each point, 2) then explain that point in two to three sentences; 3) discuss means that you must give your opinion – so write one more sentence

■ Continued on page 4

## EASTER REVISION COURSES

**Course 1:**  
Monday 30 March - Friday, 3 April 2015

**Course 2:**  
Tuesday 7 April - Saturday, 11 April 2015

Improve your Business grade with William Murphy, author of this supplement, who will be teaching on our Easter Intensive Revision courses.

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## Business Short Answer Questions and ABQ (higher)

■ Continued from page 3

beginning with "I think . . ." and then give one advantage, then 4) copy out a sentence from the story to link each point to the ABQ, and 5) remember not to use the same quote twice.

**Database (4+4=10 marks)**

1. A database is a computer program that stores, organises and manages information entered by a person.

2. A business can use a database to store information about its customers, such as their names, email addresses, previous purchases and so on.

I think that the investment in technology had a big impact on Castlewest because Pat Butler redesigned the website so that it also provides a customer database. Pat could then use this information to target previous customers of the hotel with tempting offers he knows appeal to them and thus increase sales. He would let them know that hotel rates have been reduced. This would have helped as part of the effort to attract more business.

**Increased Costs (4+4+2=10 marks)**

1. It costs a lot of money to buy new technology – the hardware (equipment) and the software (programs to run on the hardware).

2. It also costs money to maintain the hardware and to train the employees to use it.

I think that the investment in technology had a big impact on Castlewest because Castlewest Hotel and Conference Centre made a significant investment in ICT. The new website, complimentary wi-fi and video and audio conferencing facilities all had to be bought and paid for which would have increased the business's costs.

**Easier to manage (4+4+2=10 marks)**

1. New technology can replace the employees in the business. It can do the jobs previously done by workers.

2. This reduction in employee numbers reduces a manager's span of control, meaning that they will have fewer employees to supervise.

I think that the investment in technology had a big impact on Castlewest because using technology in the day-to-day operations of the hotel, from ordering stock to managing the hotel's accounts has freed Mary Cullen from supervising employees who did these tasks and given her more time to spend on the more important problems facing the business. She now has the time to focus on talking to staff and customers and getting feedback

**Solution to (c)**

Note: 1) the management skills are *leading, motivating and communicating* – state each one and give a definition. 2) Give a heading for each point. 3) Then explain that point in two to three sentences. 4) Evaluate means that you must give your opinion – so write one more sentence beginning with "I think . . ." and then give one advantage. 5) Then copy out a sentence from the story to link each point to the ABQ. 6) Remember not to use the same quote twice.

**Leading (2+2+2+2+2=10 marks)**

Leading is the ability to direct people and positively influence them so that they follow and obey you. Good leaders delegate.

Mary should *delegate*.

1. Delegation is when a manager assigns authority to an employee to carry out some task or project for him. They give the employee the power to do some of their management work for them.

2. They will hold the employee accountable for doing a good job. However, the ultimate responsibility for the task or project lies with the manager.

I think that by delegating some of her



■ **Meeting people face-to-face is a great way to build up a rapport and a relationship with them. The personal nature of the communication makes it easier to reach agreement'**

less important management work to her employees, Mary will have more time to devote to the most important issues in the business. Mary will no longer have to endure her long working hours. She will have the time to develop a plan to address the problem that bookings and sales overall have fallen in the past 18 months, as individuals and businesses have cut spending.

**Motivating (2+2+2+2+2=10 marks)**

Motivating involves the manager energising employees and providing them with appealing incentives so that they will willingly

co-operate and work harder for the business.

Mary is a *Theory Y* manager

1. According to Douglas McGregor, the best way to motivate is to be a *Theory Y* manager. This is a manager who believes that his employees enjoy working, that they have ambition and want to get on in the business and that they want more responsible and more challenging jobs.

2. A *Theory Y* manager motivates by offering promotions and titles to employees who do well. They praise employees who

do good work.

I think that Mary should continue to motivate as a *Theory Y* manager because highly motivated employees are more likely to be intrapreneurs and offer their managers useful ideas to help the business. Mary's staff will be encouraged to come up with innovative ideas for improvements. They will give her suggestions to help her attract more business.

**Communicating (2+2+2+2+2=10 marks)**

Communication involves transferring information from one person to another. It involves the sender turning an idea they have into a message by using words and/or pictures. They then send that message through a medium to the receiver, who must interpret the message and act upon it.

Mary should have a *meeting*.

1. A meeting is when two or more people come together for the purpose of discussing a predetermined topic and making decisions.

2. Business meetings require a chairperson to run them and a secretary to organise them.

I think that Mary should continue to walk around the hotel daily, talking to staff, because such meetings are an effective way to solve business problems. Meeting people face-to-face is a great way to build up a rapport and a relationship with them. The personal nature of the communication makes it easier to reach agreement.

Mary and her employees can meet to resolve the issue of the further cuts that will be necessary to ensure the continued viability and success of the business to everyone's satisfaction.

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## Business Long questions (higher)

## Take the long view

## William Murphy

Sample long questions from higher level business, as well as tips for revision and the exam

Section 3 of the paper accounts for 60 per cent of the exam and therefore you have a maximum of 27 minutes to spend on each of the four questions you must answer. As a general rule, divide the marks by five to get the number of points required, but usually no more than five points are ever required.

For each point, give a heading and a two- to three-sentence explanation. If you are asked to evaluate, analyse or discuss then you must also give an advantage or disadvantage for each point. If you are asked to illustrate, then give an example for each point.

**Sample questions**

■ *Higher Level, 2007, Section 3, Question 2 (A)* Discuss the importance of the categories of industry to the current Irish economy. (20 marks)

■ Note: 1) Give a heading for each point (2 marks); 2) then explain that point in two to three sentences (3 marks); then "discuss" – this means that you must give your opinion, backed up with an advantage (5 marks in total); 4) make sure that you do not repeat the same points!

**Solution**

*Primary Sector*

1. The primary (extractive) sector of the economy consists of all those businesses that are engaged in taking raw materials from nature.

2. In Ireland, the extractive or primary industries include agriculture, fishing, forestry, mining and energy.

I think that the primary sector is important to the current Irish economy because it exports massive amounts of raw materials from Ireland, thus improving Ireland's balance of payments. This means that it brings lots of money into the country. This money makes Irish farmers, fishermen, miners and those involved in forestry and energy wealthier and the country richer.

*Secondary Sector*

1. The secondary sector of the Irish economy consists of the manufacturing and construction industries. Manufacturing industry takes the output from the primary sector and changes it into a totally different finished product.

2. The construction industry consists of all those businesses involved in designing, producing and maintaining the built infrastructure of the economy.

I think that the secondary sector is important to the current Irish economy because manufacturing and construction buy millions of euro worth of products from other Irish businesses, thus increasing their sales and profits. For example, Taty (crisp manufacturer) buys all its potatoes from Irish farmers.

*Tertiary Sector*

1. The tertiary sector comprises all those businesses that provide a service to consumers and to other businesses. It is also known



as the services sector.

2. For example, lawyers operate in the services sector. They provide a legal service whereby they provide their clients with expert legal advice and represent them in court.

I think that the tertiary sector is important to the current Irish economy because it is by far the biggest employer of Irish people. The huge number of jobs it provides leads to lower unemployment in the economy. The taxes generated from all the people working in the services industry allows the government to pay off some of our huge national debt.

■ *Higher Level, 2008, Section 3, Question 6*

## Five top tips for revision

1 Units 2, 3 and 4 are very important this year – they will feature on the ABQ (20 per cent) and usually on Long Q4 (15 per cent) and Long Q5 (15 per cent) as well. They will also feature on the short questions.

Therefore these units could well account for 50 per cent to 55 per cent of the paper in June. Make sure that you know them inside out.

2 For each topic you study, try to learn:  
■ an accurate definition  
■ four advantages/disadvantages  
■ two examples

3 Many students who have done well in business recommend writing out summaries of each chapter on "flash cards" and then using these to study.

4 Practice as many past questions as you can – sometimes questions that have appeared on the exam before come up again. Allow yourself the exact time to answer them that you will have in the exam – no longer.

5 Use [examinations.ie](http://examinations.ie) to source all the past exam papers and, more importantly – the marking schemes.

(C) Illustrate the impact of new technologies on business opportunities. (20 marks)

■ Note: 1) Give a heading for each point (2 marks); 2) then explain that point in two to three sentences; 3) then "illustrate" – this means that you must give an example for each point you make. (3 marks for explanation and example)

**Solution**

*Design*

1. Modern technology can be used to design, test and manufacture new products more quickly and cheaply than before.

2. This enables a business to respond rapidly to market changes by helping it to bring

■ **Students at the Institute of Education in Dublin.**

PHOTOGRAPH:

ALAN BETSON

new products to the market quickly.

For example, businesses can design and test a new car using computer-aided design (CAD), without the expense or hassle of drawing up plans by hand, building prototypes, building wind tunnels to test the car and so on.

*E-commerce*

1. The internet enables businesses to sell their products anywhere without setting up shops all over the world.

2. The business advertises its products on its website and any customer in any part of the world can view the website and order products from it, paying by credit card.

For example, Dell does not have any shops. They use their website [dell.com](http://dell.com) to sell computers all over the world.

*Direct Marketing*

1. A database is a computer program that stores, organises and manages information entered by a person. Businesses can use databases to store information about their customers.

2. They can then use this information to send marketing literature to those customers who they know will be interested in it.

For example, [amazon.com](http://amazon.com) records all book purchases by its customers and uses this information about each customer to recommend other books that they think the customer might like.

■ Continued on page 6

## Business Long questions (higher) continued

## New Products

1. New technology gives entrepreneurs the opportunity to develop new products which are now only possible because of the advances in technology.

2. For example, the worldwide obsession for mobile phones combined with advances in technology gave entrepreneurs the idea to sell mobile phone ringtones and wallpaper downloads.

Another example of new technology leading to a new product is Ticketmaster, which sells tickets to concerts and other events through its website.

## Higher Level, 2007, Section 3, Question 7

(A) Explain four pricing policies that businesses can adopt as part of their marketing strategy and apply one of them to a product of your choice. (30 marks)

Note: 1) Give a heading for each point (3 marks); 2) then explain that point in two to three sentences (3 marks); 3) then apply one point to a famous product (3 + 3 marks).

## Solution

## Penetration Pricing Strategy

1. This is where the business deliberately charges a low price for its product so that it is cheaper than its competitors.

2. The business undercuts its competitors to attract their customers to switch over to it as soon as possible.

3. This helps the business to increase its market share

For example, when Bord Gáis first started selling electricity in competition with the ESB, it charged customers a price that was 10-14 per cent less than the ESB. This encouraged more than 350,000 customers to switch from ESB to Bord Gáis Energy.

## Price Skimming Strategy

1. The business charges a high price for its product when it first comes out. It does so because it knows that certain consumers will pay "any" price to be the first with the latest product.

2. Thus, the business makes lots of money which helps it quickly recoup the costs incurred

## Useful websites

examinations.ie  
This contains all past papers and marking schemes and the Chief Examiner's Report

rte.ie/business  
For relevant, up-to-date examples

skool.ie  
Contains summaries of and quizzes on Leaving Cert business

on developing the product. The business reduces the price later on (as competition enters the market and to help the business maintain sales).

## Loss Leader Strategy

1. The business sells one product below cost price, ie for less than it paid for it. It sells it so cheaply that the business is actually losing money on it.

2. The aim is to attract customers who like a bargain into the store to take advantage of the good deal. But when they come, hopefully they will engage in impulse buying and buy a lot more products than just the loss leader.

## Premium Pricing Strategy

1. Premium pricing is the strategy of consistently pricing a product at, or near, the high end of the possible price range to help attract status-conscious consumers. Examples of businesses which use premium pricing in the marketplace include Rolex and Gucci.

2. Consumers will buy a premium priced product because they believe the high price is an indication of good quality and because it signals their success and status to other people.

## How to get those extra marks

Read the questions very carefully. It is important that you answer the questions asked. For example, if the question asks you to 'illustrate', this means that you are required to give a fully explained example for each point you make.

If asked to evaluate or analyse or discuss, you must give your opinion on the matter. Make sure that you back up your opinion with an advantage or disadvantage you have studied in class.

Avoid repetition as no marks are awarded if you merely repeat something you have already said when explaining the topic.

## Tips for the exam

## Section 1 – Short-answer questions

Plan to spend no more than four minutes on each of the eight questions you have to answer.  
Generally for 10 marks, two points of information are required.  
Fill all the lines provided and give detailed answers.

## Section 2 – Applied Business Question (ABQ)

Give yourself about 40 minutes to answer the ABQ. Do not allow yourself to go over this as you will have great difficulty completing the rest of the paper.  
As a general rule, divide the marks by five to get the number of points required, but usually no more than five points are ever required.  
Link every point you write to the text of the ABQ.  
No marks are awarded if you refer only to the ABQ without firstly explaining the relevant business theory.

## Section 3 – Long questions

You have 27 minutes to spend on each of the four questions.  
As a general rule, divide the marks by five to get the number of points required, but usually no more than five points are ever required.

## Common errors

## Section 1 – Short-answer questions

The most common error is not giving sufficiently detailed points. Generally each point you make is awarded five marks, but that is broken down into 3 + 2, so make sure that you say two things on each point.  
Look at the examples of how to answer the short questions elsewhere in this guide.

## Section 2 – Applied Business Question (ABQ)

Only quoting from the text of the ABQ and not referring to the business theory you have studied – no marks at all are awarded for this.  
Only referring to business theory and not quoting from the text of the ABQ.  
Repeating a quote within the same question.  
Quoting entire paragraphs, rather than the appropriate sentence.  
Failing to provide meaningful evaluations.

## Section 3 – Long questions

Giving too many points  
Presenting the answers in essay format – the examiner expects you to write in points. Look at examples in this guide.  
Failing to answer the question asked.  
Failing to provide meaningful evaluations.

## Business Ordinary level

## Make short work of it

## William Murphy

In the short-answer section, a question on what initials stand for has appeared every year, while consumer law frequently cropped up in the long questions

## At a Glance Business (O)

The ordinary level business exam lasts for two-and-a-half hours and contains two sections as follows:

## Section 1 – Short answer questions

Accounts for 25 per cent of the marks.  
It contains 15 questions, from which you must answer any 10.  
You write the answers in the spaces provided on the exam paper.

## Section 2 – Long questions

Accounts for 75 per cent of the marks.  
It contains eight questions, from which you must answer four – one from Part 1, two from Part 2, and then any other question you like from either part.

## Short-answer questions

## Past questions

Higher level, 2013, Q15  
Outline two methods for rewarding employees.  
Note: Do not just name the two methods – explain them. Give detail in each point.

## Solution

1. Commission – the employee is paid a percentage of the sales they make.  
2. Piece rate – the employee is paid a fixed amount of money for every product they make.

Ordinary level, 1999, Q4  
What do the following letters stand for?  
Note: every year, a question has come up asking what initials stand for.

Ordinary level, 2010, Q1  
What do these letters stand for?

Ordinary level, 2000, Q1  
What do these letters stand for?

Ordinary level, 2001, Q1  
What do these letters stand for?

Ordinary level, 2001, Q1  
What do these letters stand for?

Ordinary level, 2001, Q1  
What do these letters stand for?

PRSI – Pay Related Social Insurance  
IBEC – Irish Business and Employers' Confederation  
EDI – electronic data interchange

Ordinary Level, 2002, Q1  
What do these letters stand for?

ATM – automated teller machine  
SWOT – strengths, weaknesses, opportunities, threats  
AGM – annual general meeting

Ordinary level, 2003, Q1  
What do these letters stand for?

VAT – Value Added Tax  
PRSI – Pay Related Social Insurance  
HRM – human resource management

Ordinary level, 2004, Q1  
What do these letters stand for?  
ATM – automated teller machine  
PAYE – Pay As You Earn  
ROI – return on investment

Ordinary Level, 2005, Q1  
What do these letters stand for?  
AGM – annual general meeting  
LRC – Labour Relations Commission  
IBEC – Irish Business and Employers' Confederation

Ordinary level, 2006, Q1  
What do these letters stand for?

SWOT – strengths, weaknesses, opportunities, threats  
VAT – Value Added Tax  
WWW – world wide web

Ordinary level, 2007, Q1  
What do these letters stand for?

PRO – public relations officer  
ATM – automated teller machine  
PRSI – Pay Related Social Insurance

Ordinary level, 2008, Q1  
What do these letters stand for?

PLC – public limited company  
AGM – annual general meeting  
R&D – research and development  
MD – managing director

Ordinary level, 2009, Q1  
What do these letters stand for?

WWW – world wide web  
PRSI – Pay Related Social Insurance  
ATM – automated teller machine

Ordinary level, 2010, Q1  
What do these letters stand for?

PR – public relations  
CV – curriculum vitae  
SWOT – strengths, weaknesses, opportunities, threats

Ordinary level, 2011, Q1  
What do these letters stand for?

AGM – annual general meeting  
PLC – public limited company  
AOB – any other business



Ordinary level, 2012, Q1  
What do these letters stand for?

VAT – Value Added Tax  
LRC – Labour Relations Commission  
ECB – European Central Bank

Ordinary level, 2013, Q1  
What do these letters stand for?

PAYE Pay As You Earn  
PRSI Pay Related Social Insurance  
USC Universal Social Charge

Ordinary level, 2014, Q1  
What do these letters stand for?

HRM – human resource management  
CEO – chief executive officer  
ICT – information and communications technology

## Long questions

## Past questions

A question on consumer laws has appeared frequently on the ordinary level paper.

Ordinary level, 2005, Section 2, Q1  
Study the information supplied and answer the questions which follow.

Ciara bought a ride-on lawnmower from Quality Lawnmowers Ltd for €2,500. The first time she tried to cut the lawn the blades did not work on the lawnmower. She contacted Quality Lawnmowers Ltd to complain.

(i) Name the law that protects the consumer in this case. (10 marks)  
(ii) Explain Ciara's legal rights and the

duties of Quality Lawnmowers Ltd. (20 marks)  
(iii) Outline one non-legislative (non-legal) method of solving the above problem. (10 marks)

## Solution

Note: for parts (ii) and (iii), divide the marks by five to figure out how many points are needed and do not repeat any of the points you make.  
(i) Sale of Goods and Supply of Services Act, 1980

(ii) Ciara has the following legal rights:  
1. Products she buys must be of merchantable quality.

2. They must be fit for their purpose.  
Quality Lawnmowers has the following legal duties:  
3. They must give Ciara a full refund of

Students at the Institute of Education.  
PHOTOGRAPH: ALAN BETSON

her money as the ride-on was not fit for its purpose.  
4. The company must deal with her complaint directly and cannot fob her off to the manufacturer.

(iii) 1. Ciara and Quality Lawnmowers can solve the problem by negotiation. This means that they meet each other and talk about the problem. Ciara will set out the facts as she sees them and tell them what she would like to solve the problem.

2. Quality Lawnmowers will then set out its side of the argument and tell Ciara what they are prepared to do for her. When they agree on a solution that they are both happy with, this is called a compromise.

Note: this is similar to Section 2, Q1 in 2011, 2010, 2008, 2007, 2003, 2002, 2000, and 1999. Try these questions yourself.

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Accounting Overview and Ratio Analysis (higher level)

# Practise precision



Arthur Russell

Tips to improve your grade and the best approach to questions on Ratio Analysis

Accounting has the highest percentage of A grades among the Leaving Cert business subjects and one of the highest of all the Leaving Cert subjects. As well as this, it is a great foundation for business management with most chief executive officers of public limited companies having some sort of accounting qualification.

**Timing is crucial in the exam**  
Students must stick rigidly to the timing advice in the panel to the right. Many students find themselves in the exam with 15 minutes left and one full question to complete. Panic sets in and they don't do themselves justice, scoring poorly in their final question.

**Accounting cannot be learnt**  
Continual practice of previous examination papers is vital. A little theory needs to be studied carefully - any student wishing to attain an A1 must have a thorough knowledge of the theory of accounting.

**Use rough work pages for calculations**  
Set aside plenty of pages for this, keeping workings close to the relevant question so that the examiner can apportion marks

for any work completed in a satisfactory manner. Students run the risk of scoring zero marks for a particular figure if they omit their workings. Remember that workings can be laid out in note form or account form. Do not cram your answer and workings on to one page.

**4 Adjustments**  
Do not attempt Question 1 unless you have a thorough working knowledge of all of the adjustments to the trial balance. These adjustments include: Damaged stock; Patents written off; Bank Reconciliation Statements; Disposal of Fixed Assets and Depreciation; Revaluation of Fixed Assets; Debenture Interest due; Investment Income due; Bad Debts Provision; Goods in transit; Suspense; VAT; Capital Expenditure; Sale or Return; etc. Later in this guide you can test yourself and find out if you have a good working knowledge of some of these adjustments. If you cannot do them opt for the alternative (two 60-mark questions).

**5 Financial Accounting**  
Remember that most of the Financial Accounting topics on the syllabus can be examined in either Section 1 (a short 60-mark question) or in Section 2 (a longer 100-mark question).

Topics, such as, tabular statements, correction of errors, published accounts, cash flow statements, club accounts, service firms, would be regarded as normal Section 2 questions but have often been shortened and asked as Section 1 questions. It is possible that even a farm account, which is normally a Section 1 question, could be extended and examined in Section 2.

In 2011, incomplete records, which had been examined as a 100-mark question since the new Leaving Cert course was introduced in 1997, was examined as a 60-mark question. It is even possible that Ratio Analysis, which has always been examined as a 100-mark question, could be shortened and examined as a 60-mark question. My advice is expect the unexpected.

**6 Double-entry system**  
Do not attempt to answer the Correction of Errors topic unless you have a solid understanding of the basic double-entry system, ie debits and credits. The following might be a useful guide to the double-entry system:

**Expenses and Gains (recorded in the Trading Account and the Profit and Loss Account)**  
Expenses are normally on the debit side of their own accounts; typical expenses include purchases, wages, light and heat, discount allowed, repairs, rent payable, bad debts, interest payable etc.

Gains/Income are normally on the credit side of their own accounts; typical gain accounts include sales, rent receivable, discount received, bad debts recovered, interest receivable, commission receivable and so on.

**Assets and Liabilities (recorded in the Balance Sheet)**  
Assets are normally on the debit side of their own accounts; typical assets include land, premises, vans, equipment, investments, goodwill, patents, debtors, bank, cash, drawings (in the sense that drawings is what the owner owes the business).

Liabilities are normally on the credit side of their own accounts; typical liabilities include creditors, bank overdraft, loans and capital.

As the day of the exam draws closer, one guaranteed way of alleviating that sinking feeling in your stomach (totally normal), is to practise at least one accounting question every day. Have these answers corrected by your teacher and then fine-tune yourself by examining closely where you have made your errors.

Continue with this policy right up until the end of May and this will result in a huge improvement in your grade.



**Analysis: should the bank give a loan of €200,000, at 10 per cent pa, to Steinbeck Ltd?**

Do not make the mortal error of assuming just because a topic appeared on last year's examination paper, that it cannot be asked on this year's paper, or that because it normally is examined in Section 2 it cannot be examined in Section 1. On numerous occasions a topic has appeared on the paper two years in a row. Don't fall into this trap - cover the entire course. Get on with it and don't look back in five or six month's time and say, "If only I had done a little more revision each night." Don't do it for anyone else - do it for yourself and do it now. In a matter of months all this hard slog will be over.

The following are a number of typical Leaving Certificate higher-level questions. (These are not meant to be "tips" for Leaving Certificate 2015.)

## Ratio Analysis

Ratio Analysis is a typical Section 2 question. At 100 marks, this represents 25 per cent of the overall marks. Allow yourself 42-45 minutes to complete this question.

The figures to the right for the year ending 31/12/2014 have been taken from the accounts of Steinbeck Ltd, a company engaged in the sale of marathon and endurance heart monitors.

The relevant ratios for 2013 include the following:

Earnings per share	20 cent
Price earnings ratio	10 years
Return on capital employed	15%
Interest cover	9 times
Acid test ratio	0.8 : 1
Gearing - based on the debt to equity %	70%
Dividend yield	7.5%
Market price	€2.00
Dividend per share	15 cent

1. The Return on Capital Employed
2. The Earnings per Ordinary Share
3. The Dividend Yield
4. The Dividend Cover

## Trading, Profit & Loss Account for Y/E 31/12/2014

	€	€
Sales		700,000
Stock 1/1/2014	80,000	
Purchases	490,000	
	570,000	
Stock 31/12/2014	(140,000)	(430,000)
Gross Profit		270,000
Operating Expenses		(94,000)
Operating Profit		176,000
Interest		(16,000)
Net Profit		160,000
Dividends Paid		(40,000)
Retained Profits		120,000
P+L Balance 1/1/2014		130,000
P+L Balance 31/12/2014		250,000

## Balance sheet as at 31/12/2014

	€	€
Fixed Assets		690,000
Investments (market value €150,000)		130,000
Current Assets	430,000	
Current Liabilities	320,000	110,000
		930,000
Financed By:		
8% Debentures 2016 (secured)	200,000	
Ordinary Share Capital - €1 shares	380,000	
10% Preference Share Capital	100,000	
P+L Balance	250,000	930,000

The market value of one ordinary share is €1.90

5. The Interest Cover  
B) Advise Katie Russmul, bank manager of Hemingway Bank Ltd, on whether she should give a loan of €200,000, at 10 per cent pa, to this company, for expansion purposes?

**Solution**  
A) 1. Return on Capital Employed

The formula is

Net profit + Debenture interest	x 100
Capital employed	1
€160,000 + €16,000	x 100 = 18.92%
€930,000	

The debenture interest is 8 per cent of the Debentures of €200,000 = €16,000  
The capital employed is the total of the "financed by" section of the balance sheet.

2. Earnings Per Share  
This is the profit, left over to the ordinary shareholders, per share and it is calculated as follows:

Net profit less preference dividend	
Number of issued ordinary shares	
€160,000 - €10,000	380,000 shares
	= 39.47 cent

The preference dividend is calculated by 10 per cent of the issued preference share capital of €100,000.

3. Dividend Yield  
This is the ordinary dividend per share calculated as a percentage of the market price of one ordinary share.

The formula is

Ordinary Dividend per Share	x 100
Market Price	
7.89c x 100	
190c	
	= 4.15%

The dividend per share of 7.89 cent is derived as follows:

Total Dividend less Preference Dividend	
Number of Ordinary Shares	
€40,000 - €10,000	380,000 shares
	= 7.89 cent

4. The Dividend Cover  
This is the number of times that the profit left over to the ordinary shareholders covers the dividend paid out to those same shareholders.

The formula is

Earnings per share	
Dividend per share	
€200,000 + €100,000	x 100
€380,000 + €250,000	= 47.62 %

The earnings per share we have already calculated in part two as 39.47 cent per ordinary share.

The dividend in cent per share is calculated in part three above as 7.89 cent per share.

Dividend Cover =	39.47 cent
	7.89 cent
	= 5 times

5 Interest Cover  
This is the number of times that the operating profit covers the debenture interest.

The formula is

Net Profit + Interest	
Interest	
€160,000 + €16,000	= 11 times
€16,000	

Included among the other questions, that can be asked in Question 5 (A) are:  
■ Cash purchases or cash sales  
■ Stock turnover and the calculation of the opening stock  
■ Price earnings ratio  
■ Price dividends ratio  
■ Gearing Ratio and the effect this has on the appropriation of profit

B) The analysis section requires at least six to seven points, each one fully developed under the following suggested headings.

The bank manager, Katie Russmul, should grant the loan for the following reasons:

**Liquidity:** Liquidity determines whether a company can or cannot pay its current liabilities out of its liquid assets.

The Acid Test Ratio is

Current assets - Closing stock	
Current liabilities	
€430,000 - €140,000	€320,000
	= 0.91:1

The norm is 1:1. The firm is not yet liquid but the position has improved on last year when it was 0.8:1. For every €1 in short-term debts there is €0.91 in liquid assets. However a cause for concern is that the extra interest payments will worsen the liquidity position of the firm in the short-term.

**Profitability:** This is measured by the return on capital employed, which has been calculated in part A (1) above at 18.92 per cent. The firm is very profitable because it is earning much more than the return from risk free investments of about 3 per cent. It has also improved on last year's figure of 15 per cent, and it is well above the interest charge of 10 per cent on the new loan. This will please the bank manager because it shows that the company will be able to generate funds to pay the interest. The management is making efficient use of its resources.

Be very careful in the analysis section because in 2007 and in 2012 students were given the projected ratios for the next year rather than the last year's figures.

**Gearing:** This is an examination of the long-term capital structure of a firm to find out if the company is financed by debt or by equity. A number of formulae can be used at this point, all fully correct. The one used here is the Debt to Equity percentage.

Debentures + Preference Share Capital	x 100
Ordinary Share Capital + Retained Profits	
€200,000 + €100,000	x 100
€380,000 + €250,000	= 47.62 %

The firm is lowly geared at 47.62 per cent and the position has improved on last year's figure of 70 per cent. The company is financed more by equity than by debt. Including the new loan the firm is still lowly geared at 79.37 per cent, so the bank will be quite happy to give it a loan of €200,000 for this reason.

The formula Debt to Capital Employed is fully acceptable in the analysis of gearing. However, with this formula the percentage must be less than 50 per cent to be lowly geared.

**Interest cover:** The present interest cover is 11 times. The company can easily pay its interest charges out of profits, and the situation has improved on last year when the cover was nine times. However the extra loan will worsen the interest cover somewhat. The bank will be happy about the company's ability to meet its interest charges.

**Purpose:** The loan is for expansion purposes and the bank will be pleased with this because this will generate extra revenue, which can be used to service the loan. However the bank would like to know what type of expansion the company is considering, as there is a credit squeeze, and the bank must prioritise the profitable projects it intends investing in.

**Security:** The bank will want to know the real market value of the fixed assets in case the company defaults on the loan. At the moment the cost of the tangible fixed assets is €690,000 and there are already debentures secured against these fixed assets of €200,000. This leaves €490,000 left over as security against a new loan of €200,000 and this seems adequate to satisfy the bank's needs for security. As well as this the company has investments valued at €150,000 - having cost the company €130,000 indicating efficient management decision making. However we need more information on the present debentures because we don't know whether the security is fixed or floating, nor do we know whether the fixed assets have adequate depreciation, and if there is a figure for goodwill included.

**Dividend Cover:** This shows how much of the profits are retained for future expansion purposes and the repayments of loans. These figures have been calculated in part A (4) above. The cover is five times - out of an earnings per share of 39.47 cent, the company is paying dividends of 7.89 cent and retaining 31.58 cent. The bank will be pleased with this because the company is retaining enough of the profits to go towards the repayment of the loan. Last year's cover was 1.33 times and this means the firm is retaining more of its profits this year compared to last year. The DPS has fallen from 15 cent last year to 7.89 cent this year, which would please the bank manager but displease ordinary shareholders.

**Sector:** The firm is involved in the health and leisure industry. Short-term prospects are good as people spend more of their disposable income on fighting the obesity epidemic. Long-term prospects are good also as the population begins to age and people will need greater access to medical equipment.

## Frequency of Topics

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Financial Accounting</b>												
Final Accounts	120 ST	120 M	120 C	120 M	120 ST	120 M	120 ST	120 C	120 ST	120 M	120 C	120 ST
Ratio Analysis	100	100	100	100	100	100	100	100	100	100	100	100
Correction of Errors	100		60		100		100		100		100	
Tabular Statements		60		100		60		100		60		
Published Accounts	60	100		60		100		60		100		60
Cash Flow Statements	60		100		60		100		60			60
Club Accounts		60		100			60				100	
Service Firms Accounts	100		100		100		100			60		100
Farm Accounts			60			60			60			
Depreciation		60			60					60		
Revaluation			60			60		60			60	60
Incomplete Records		100		60		100		100		100		100
Control Accounts	60 C			60 D	60 C		60 C	60 D		60 C		60 D
<b>Management Accounting</b>												
Product Costing		80	50		80	80		80		80		80
Cash Budgeting		56	80		80	80		80			80	
Production Budgeting	80	24		80			80			80		
Flexible Budgeting			30			24		80				80
Marginal Costing	80			80			56		80			80

In Final Accounts above: C = Company Accounts; ST = Sole Trader Accounts; M = Manufacturing Accounts.

## Accounting Club accounts, cash flow statements and job costing

## By all accounts

## Arthur Russell

Club accounts, cash flow statements and job costing are popular topics on the Leaving Cert paper

## Club accounts

A popular topic for both Section 1 and 2 is club accounts. A question on club accounts could be worth 60 or 100 marks, depending on which section it appears in.

## Sample question

Included among the assets and liabilities of the Hadley Richardson Football Club, on the 01/01/2014 were the following: buildings at cost €680,000; equipment at cost €90,000; bar stock €2,000; creditors for supplies to the bar €3,200; 8 per cent investments €40,000; subscriptions received in advance €2,000; stock of heating oil €900; investment income due €300; bar debtors €420; wages due €900; levy reserve fund €50,000; life membership €20,000.

Below is a Receipts and Payments Account for the year ended 31/12/2014.

You are given the following additional information:

(i) Closing Stock of the bar at 31/12/2014 is €3,700 (this includes a stock of heating oil of €400).

(ii) Equipment owned on the 31/12/2014 is to be depreciated at the rate of 20 per cent of cost pa and buildings at the rate of 2 per cent pa on cost.

(iii) Bar debtors and creditors, at the 31/12/2014, amounted to €480 and €2,800 respectively.

(iv) Subscriptions includes:  
a) One new life member bringing the total life members to 11.

b) Subscriptions received for 2015 of €500.

c) Levy on 10 members of €250 each due for 2013.

d) Levy on 100 members of €250 each

## Receipts and Payments Account

€		€	
Investment Income	3,300	Balance at Bank	17,200
Subscriptions	223,000	Equipment	20,000
Bar Receipts	75,000	Purchases for the Bar	42,000
Annual Sponsorship	30,000	Light and Heat	3,000
Catering Receipts	10,700	Insurance	7,000
Sale of Equipment (cost €5,000)	3,500	New Extension	200,000
		Repayment of €60,000 loan on 31/10/2014 together with 18 months interest	65,400
		Prize Bonds	3,000
		Wages and Salaries	32,000
		Catering Costs	6,900
Balance	51,000		
	396,500		396,500

for 2014.

(v) Electricity due at the 31/12/2014 is €500.

(vi) Life membership is to be written off over a five-year period beginning in 2014.

You are required to:

a) Calculate the accumulated fund on the 1/1/2014.

b) Calculate the profit/loss of the bar for the year ended 31/12/2014.

c) Prepare the Income and Expenditure Account for the year ended 31/12/2014.

d) Prepare the balance sheet as at 31/12/2014.

e) Calculate and comment on the bar profit as a percentage of the sales.

## Solution

See tables (a) to (d) to the right.

■ **Note 1:** The interest due at 01/01/2014 is got by subtracting €65,400 and the loan of €60,000 to arrive at a figure of €5,400. This is the total interest for 18 months, of which eight months are due at the 01/01/2014. Divide €5,400 by 18 months and multiply by eight months and you get €2,400. Subtract €5,400 and €2,400 and you get €3,000, which is the interest for the 10 months of 2014, and this is to be entered as an expense in the Income and Expenditure Account for that year.

■ **Note 2:** The subscriptions figure of €195,000 is got by taking the base figure of €223,000, adding on the prepaid at 01/01/2014 of €2,000 to get €225,000. Then go down to adjustment (iv) and subtract the one new life member of €2,000 to get €223,000. Next subtract the subs prepaid at 31/12/2014 of €500 to get €222,500. Next subtract the levy for 2013 of €2,500 and the levy for 2014 of €25,000 and you arrive at the final figure to be sent to the Income and Expenditure Account of €195,000.

e) The bar profit as a percentage of sales is 46.31 per cent. This compares favourably with other profit-making private enterprises. It indicates that the management has a tight control on cash takings and stock. Management is making sure that there is little pilferage or obsolescence of stocks.

We would like to see last year's profit percentage figure to determine if the profit percentage is improving or worsening.

Management should make a decision on whether to expand the square footage of the bar.

## a) Accumulated Fund at 01/01/2014

Assets 1/1/2014	€	€
Buildings	680,000	
Equipment	90,000	
Stock	2,000	
Investments	40,000	
Stock of Oil	900	
Levy due	2,500	
Investment income due	300	
Debtors	420	
		816,120

## Liabilities 1/1/2014

Bank overdraft	17,200
Levy reserve fund	50,000
Life membership	20,000
Wages due	900
Loan	60,000
Interest due on the loan Note 1	2,400
Subscriptions prepaid	2,000
Creditors	3,200
<b>Accumulated Fund 1/1/2014</b>	<b>660,420</b>

## b) Bar Trading Account for the year ended 31/12/2014

	€	€
Sales (75,000 - 420 + 480)		75,060
<b>Cost of Sales</b>		
Opening Stock	2,000	
Purchases (42,000 - 3,200 + 2,800)	41,600	
	43,600	
Closing Stock (3,700 - 400)	(3,300)	(40,300)
Bar Profit		34,760

## Income and Expenditure Account for the year ended 31/12/2014

	€	€
<b>Income</b>		
Bar Profit	34,760	
Investment Income (8% of 40,000)		3,200
Subscriptions <b>Note 2</b> (223,000 + 2,000 - 2,000 - 500 - 2,500 - 25,000)	195,000	
Catering profit	3,800	
Annual sponsorship	30,000	
Life member subscriptions	4,400	
	271,160	
<b>Expenditure</b>		
Light and heat (3,000 + 900 - 400 + 500)	4,000	
Loss on sale of equipment	1,500	
Interest on the loan (5,400 + 18 months x 10%) <b>Note 1</b>	3,000	
Insurance	7,000	
Wages (32,000 - 900)	31,100	
Depreciation Equipment (105,000 x 20%)	21,000	
Depreciation buildings (880,000 x 2%)	17,600	(85,200)
Excess of Income		185,960



■ Accounting teacher Arthur Russell helping student Laura Harrington at the Institute of Education.

## (i) Abridged Profit and Loss Account for y/c 31/12/2014

	€	€
Operating Profit	237,500	
Investment income <b>N1</b>	4,000	
Interest payable <b>N2</b>	(20,000)	
Net profit before tax	221,500	
Taxation <b>N3</b>	(55,000)	
Net profit after tax	166,500	
Dividends <b>N4</b>	(36,000)	
Retained profit	130,500	
Profit and Loss balance 1/1/2014		39,000
Profit and Loss balance 31/12/2014		169,500

## (ii) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	€
Operating profit	237,500
Depreciation on fixed assets <b>N6</b>	76,000
Profit on sale of buildings <b>N7</b>	(15,000)
Decrease in Stock	20,000
Increase in Debtors	(115,000)
Increase in Creditors	15,000
Net cash inflow from operating activities	218,500

## Cash Flow Statement for the year ended 31/12/2014

	€	€
--	---	---

## Operating Activities

Net cash inflow from operating activities	218,500
---	---------

## Return on investment and servicing of finance

Investment income received <b>N1</b>	3,500
Interest paid <b>N2</b>	(22,000)
	(18,500)

## Taxation

Taxation paid <b>N3</b>	(40,000)
-------------------------	----------

## Capital expenditure and financial investment

Sale of buildings <b>N7</b>	79,000
Purchase of buildings <b>N5</b>	(150,000)
Purchase of vehicles	(110,000)
	(181,000)

## Equity Dividends paid

Dividends paid <b>N4</b>	(36,000)
Net cash outflow before liquid resources and financing	(57,000)

## Management of liquid resources

Purchase of government securities	(40,000)
-----------------------------------	----------

## Financing

Repayment of debentures	(20,000)
Issued share capital	100,000
Share premium	40,000
Increase in cash	23,000

## Reconciliation of net cash to movement in net debt

	€
Increase in cash	23,000
Government securities	40,000
Debentures	20,000
Change in net debt	83,000
Net debt 1/1/2014 <b>N8</b>	(158,000)
Net debt 31/12/2014 <b>N8</b>	(75,000)

## d) Balance Sheet as at 31/12/2014

	Cost	Depreciation	Net
	€	€	€
<b>Fixed Assets</b>			
Buildings	880,000	17,600	862,400
Equipment	105,000	21,000	84,000
	985,000	38,600	946,400
Investments		40,000	986,400

## Current Assets

Stocks	3,700
Debtors	480
Prize bonds	3,000
Investment Income due	200
3,200 - (3,300 - 300)	7,380

## Current Liabilities

Creditors	2,800
Subscriptions prepaid	500
Electricity due	500
Bank overdraft	51,000
	(54,800)
	(47,420)
	938,980

## Financed By

<b>Long term liabilities:</b>	
Life members	17,600
Accumulated fund	660,420
Levy reserve fund (50,000 + 25,000)	75,000
Excess of income	185,960
	921,380
	938,980

## Cash flow statements

Another typical question that can appear in either Section 1 or 2 is a question on cash flow statements. The following is a typical Section 2 question.

To the right are the Balance Sheets of JK Galbraith plc as at 31/12/2013 and 31/12/2014. The following information is also available for the year 2014:

(i) Buildings that cost €70,000 were sold off at a profit of €15,000.

(ii) The total dividend for the year was 6 cent per share.

(iii) There were no disposals of vehicles during the year but vehicles were purchased.

(iv) Depreciation charged for the year in arriving at the operating profit included €16,000 on buildings.

(v) Corporation tax paid in 2014 was €40,000.

You are required to:

(i) Prepare an Abridged Profit and Loss Account to ascertain the operating profit for the year ending 31/12/2014.

(ii) Prepare the Cash Flow Statement for JK Galbraith plc for the year ending 31/12/2014, including two reconciliation statements.

## Solution

See tables (i) and (ii) above, and the two reconciliation statements.

## Workings to the above accounts

■ **Note 1: Investment income**

The income receivable is 5 per cent of the investments of €80,000, which works out to be €4,000, and this is entered in the abridged profit and loss account. To calculate the income received to be entered in the cash flow statement, add to the €4,000 the income due at the start of the year of

■ **Continued on page 12**

## Balance Sheets of JK Galbraith plc as at 31/12/2013 and 31/12/2014

	31/12/2014		31/12/2013	
	€	€	€	€
<b>Fixed Assets</b>				
Buildings	750,000	670,000		
Accumulated Depreciation	(70,000)	680,000	(60,000)	610,000
Vehicles	230,000	120,000		
Accumulated Depreciation	(90,000)	140,000	(30,000)	90,000
		820,000		700,000
5% Investments		80,000		80,000
<b>Current Assets</b>				
Stocks	75,000	95,000		
Debtors	150,000	35,000		
Government securities	40,000			
Investment income due	1,500	1,000		
Bank	65,000	42,000		
	331,500	173,000		

## Creditors: amounts falling due in less than one year

Creditors	110,000	95,000
Corporation tax	60,000	45,000
Interest due	12,000	14,000
	(182,000)	149,500
	1,049,500	799,000

## Financed By

<b>Creditors: amounts falling due after more than one year</b>		
10% Debentures (20,000 redeemed on 31/12/2014)	180,000	200,000
<b>Capital and Reserves</b>		
Ordinary shares @ €1 each	600,000	500,000
Share premium	100,000	60,000
Profit and Loss account	169,500	869,500
	1,049,500	799,000

Continued from page 11

€1,000 and subtract the income due at the end of the year of €1,500 and you end up with a figure of €3,500.

**Note 2: Interest on Debentures**

The interest payable is 10 per cent of the debentures of €200,000 which works out to be €20,000 and this is entered in the abridged profit and loss account. To calculate the interest paid to be entered in the cash flow statement, add to the €20,000 the interest due at the start of the year of €14,000 and subtract the interest of €12,000 due at the end of the year and you end up with a figure of €22,000.

**Note 3: Taxation**

The tax paid of €40,000, to be entered in the cash flow statement, is given in adjustment number (v). To calculate the tax payable to be entered in the abridged profit and loss account, subtract from this the tax due at the start of the year of €45,000 and add the tax due at the end of the year of €60,000 and you end up with the €55,000.

**Note 4: Dividends**

This is an easy figure to calculate just simply multiply the issued shares of 600,000 by 6 cent per share to come up with a figure of €36,000.

**Note 5: Buildings at Cost**

Take the buildings at cost figure at the start of the year of €670,000, subtract from this the buildings sold at cost in adjustment (i) of €70,000 and you find a figure of €600,000. Then subtract this figure from the buildings at the end of the year of €750,000 and you end up with the new buildings bought this year of €150,000, and this is entered in the cash flow statement.

**Note 6: Buildings Accumulated Depreciation**

Take the accumulated depreciation at the start of the year of €60,000, add to this figure the depreciation for this year of €16,000 given in adjustment (iv) and you find a figure of €76,000. Then subtract from the €76,000 the accumulated depreciation at the end of the year of €70,000 and you end up with €6,000 which is the depreciation on the building sold off.

This year's depreciation on buildings of €16,000 is combined with this year's depreciation on vehicles of €60,000 (€90,000 - €30,000) to get €76,000 which is entered in the abridged profit and loss account as one figure.

**Note 7: Disposal of Buildings**

The missing figure here is the cash received from the sale of the buildings. To calculate this figure take the cost of the building sold off of €70,000, subtract from this the accumulated depreciation on this building of €6,000(examine Note 6 above) and you end up with the book value of €64,000. Add the profit made of €15,000 and you end up with the cash received from the sale of the building of €79,000, and this is entered in the cash flow statement.

**Note 8: Net Debt**

Net Debt	01/01/2014		31/12/2014	
	€	€	€	€
Bank	42,000		65,000	
Government securities		0		40,000
Debentures	(200,000)	(180,000)	(158,000)	(75,000)

**Job Costing**

Job costing is a typical question that shows up in Section 3. Job costing refers to the allocation of overheads and the determining of the selling price of a job.

**Sample question**

Pauline Pfeiffer Ltd, a book publisher, has three departments: printing, binding and finishing. The costs in the table (below right) relate to 2015.

A new batch of books has just been produced for a major multiple and the details are listed in the second table (below right).

You are required to calculate:

- a) The overheads to be absorbed by each department stating clearly the basis of apportionment.
- b) A suitable overhead absorption rate for each department.
- c) The total selling price of the recent batch of books.

**Solution**

a) See Overhead table below right.

b) Overhead absorption rates for each department:

The absorption basis to be chosen is either machine hours or labour hours, whichever is the larger.

In the printing department, use machine hours and in the other two departments use labour hours as follows:

**Printing** – divide €851,000 by 12,000 machine hours = €70.92 per machine hour

**Binding** – divide €530,200 by 20,000 labour hours = €26.51 per labour hour

**Finishing** – divide €313,800 by 14,000 labour hours = €22.41 per labour hour

**c) Selling price of the batch of books**

Materials	€	€
Printing	22,000	
Binding	2,000	
Finishing	1,500	25,500

Labour costs	€	€
Printing	18,000	
Binding	19,000	
Finishing	13,400	50,400
Direct costs		75,900

Overheads	€	€
Printing (116 MH x €70.92)	8,226.72	
Binding (180LH x 26.51)	4,771.80	
Finishing (70LH x €22.41)	1,568.70	14,567.22
Total cost		90,467.22

Profit <b>Note 1</b>	30,155.74
Selling price	120,622.96

**Note 1:** The profit is calculated by dividing the cost of €90,467.22 by 75 and multiplying the answer by 25. If the profit is 25 per cent of the selling price then the cost is 75 per cent of the selling price. Profit margin means the profit as a percentage of the selling price, whereas mark-up means the profit as a percentage of the cost.



Pauline Pfeiffer Ltd – costs 2015				
	Total	Printing	Binding	Finishing
	€	€	€	€
Indirect materials	720,000	400,000	200,000	120,000
Indirect labour	460,000	200,000	180,000	80,000
Machine maintenance	120,000			
Plant depreciation	90,000			
Rent and rates	144,000			
Light and heat	105,000			
Canteen costs	56,000			

The following information relates to the 3 departments above

	Total	Printing	Binding	Finishing
Volume (cubic metres)	70,000	42,000	14,000	14,000
Floor space (sq metres)	48,000	24,000	16,000	8,000
Plant valuation €	360,000	160,000	120,000	80,000
Employees	80	40	16	24
Machine hours	30,000	12,000	10,000	8,000
Labour hours	42,000	8,000	20,000	14,000

Pauline Pfeiffer Ltd – new batch of books				
	Direct materials	Direct labour	Machine hours	Labour hours
	€	€		
Printing	22,000	18,000	116	100
Binding	2,000	19,000	70	180
Finishing	1,500	13,400	20	70

The company budgets for a profit margin of 25%

a) Overhead					
	Basis	Total	Printing	Binding	Finishing
		€	€	€	€
Indirect materials	Actual	720,000	400,000	200,000	120,000
Indirect labour	Actual	460,000	200,000	180,000	80,000
Maintenance	Machine hrs	120,000	48,000	40,000	32,000
Depreciation	Plant valuation	90,000	40,000	30,000	20,000
Rent and rates	Floor area	144,000	72,000	48,000	24,000
Light and heat	Volume	105,000	63,000	21,000	21,000
Canteen costs	Employees	56,000	28,000	11,200	16,800
		1,695,000	851,000	530,200	313,800

Accounting Final Account Adjustments

# Time to adjust

**Arthur Russell**

As part of your revision, test yourself with these typical adjustments to the trial balance

Students who are not familiar with the adjustments in Question 1 should avoid this question and opt instead for the alternative of two 60-mark questions. The following are a number of typical adjustments to the trial balance and students should now test themselves on these. The answers will be given on the next page.

**Adjustment 1**

Goods in Transit

	Trial Balance	
	Debit (€)	Credit (€)
Purchases	650,000	
Creditors		85,500

Stock of trading goods at the 31/12/2014 is €72,500. No record had been made in the books for goods in transit on the 31/12/2014. The invoice for these goods had been received showing the recommended retail selling price of €7,000, which is cost plus 25 per cent.

- Calculate the following:
  - (i) The purchases figure to be entered in the trading account for 2014.
  - (ii) The closing stock figure to be entered in the trading account for 2014 and the balance sheet as at 31/12/2014.
  - (iii) The creditors figure in the balance sheet as at 31/12/2014.

**Adjustment 2**

Sale of Fixed Assets and Depreciation

	Trial Balance	
	Debit (€)	Credit (€)
Vans at cost 01/01/2014	172,000	
Accumulated Depreciation on vans 01/01/2014		78,000
Purchases	620,000	

Provide for depreciation on vans at the rate of 20 per cent of cost from the date of purchase to the date of sale.

- Calculate the following–
  - (i) The vans at cost figure in the balance sheet at 31/12/2014.
  - (ii) The depreciation expense in the profit and loss account for 2014.
  - (iii) The profit/loss on the disposal of the old van sent to the profit and loss account for 2014.
  - (iv) The accumulated depreciation on vans in the balance sheet at the 31/12/2014.



**Test yourself on typical adjustments to the trial balance to prepare yourself for the exam in June.**

Provide for depreciation on vans at the rate of 20 per cent of cost from the date of purchase to the date of sale.

**Note:** On 30/09/2014 a van that had cost €60,000 on 01/06/2012 was traded in against a new van that cost €84,000. An allowance of €22,000 was given on the old van. The cheque for the net amount of this transaction was incorrectly treated as a purchase of trading goods. This was the only entry made in the books in respect of this transaction.

- Calculate the following–
  - (i) The vans at cost figure in the balance sheet at 31/12/2014.
  - (ii) The depreciation expense in the profit and loss account for 2014.
  - (iii) The profit/loss on the disposal of the old van sent to the profit and loss account for 2014.
  - (iv) The accumulated depreciation on vans in the balance sheet at the 31/12/2014.

(v) The purchases figure in the trading account for 2014.

**Adjustment 3**

Sale or Return

	Trial Balance	
	Debit (€)	Credit (€)
Sales	935,000	
Debtors	94,400	

Stock of trading goods at 31/12/2014 is €92,000. It was discovered finished goods that cost €8,000 to produce were invoiced to a customer on a sale or return basis. These goods had been incorrectly entered as a credit sale at cost plus 20 per cent.

Calculate the following:
 

- (i) The sales figure in the trading ac-

count for 2014.

- (ii) The debtors figure in the balance sheet as at 31/12/2014.
- (iii) The closing stock figure in the trading account for 2014 and in the balance sheet as at 31/12/2014.

**Adjustment 4**

Bank Reconciliation

	Trial Balance	
	Debit (€)	Credit (€)
Bank		5,500
Creditors		81,000
Debtors	73,900	
6% Investments 01/05/2014	180,000	
Investment income received		1,800

## EASTER REVISION COURSES

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Accounting Final Account Adjustments

Continued from page 14

The bank balance in the company's accounts (previous page) does not agree with the bank statement that arrives on 31/12/2014, which shows a credit balance of €4,040.

A number of discrepancies have arisen as follows:

- Investment income of €2,700 has been received directly into our bank branch.
- A cheque for €780 issued to a supplier had been entered in the books as €870.
- A credit transfer of €750 had been paid directly to the firm's bank branch on behalf of a debtor who has recently been declared bankrupt. This represents a first and final payment of 30 cent in the euro.
- A cheque for fees of €6,000 issued to the auditors had not been presented at the bank for payment.

- Calculate:
- The bank balance to be entered in the balance sheet at 31/12/2014.
  - The investment income figure in the profit and loss account for 2014.
  - The investment income due to be entered in the balance sheet as at 31/12/2014.
  - The creditors figure to be entered in the balance sheet as at 31/12/2014.
  - The debtors figure to be entered in the balance sheet as at 31/12/2014.
  - The bad debts expense to be recorded in the profit and loss account for 2014.

Adjustment 5

Error involving VAT

Trial Balance	
Debit (€)	Credit (€)
Buildings at cost	900,000
VAT	4,300

A new building was purchased during the year for €200,000 plus VAT at 12.5 per cent. The amount paid to the seller was entered in the buildings account. The correct entry was made in the bank account but no entry was made in the VAT account.

- Calculate the following –
- The buildings figure in the balance sheet as at 31/12/2014.
  - The VAT figure in the balance sheet as at 31/12/2014.

Solutions Final Account Adjustments

- Adjustment 1**
- Purchases: €655,600 (650,000 + 5600)
  - Closing stock: €78,100 (72,500 + 5600)
  - Creditors: €91,100 (85,500 + 5,600)
- Adjustment 2**
- Cost of vans: €196,000 (172,000 + 84,000 – 60,000)
  - Depreciation for 2013: €35,600 (9,000 + 22,400 + 4,200)
  - Loss on disposal: €10,000 (60,000 – 28,000 – 22,000)
  - Accumulated Depreciation at 31/12/2013: €85,600 (78,000 + 35,600 – 28,000)
  - Purchases for 2013: €558,000 (620,000 – 62,000)
- Adjustment 3**
- Sales: €925,400 (935,000 – 9,600)
  - Debtors: €84,800 (94,400 – 9,600)
  - Closing stock: €100,000 (92,000 + 8,000)
- Adjustment 4**
- Bank: €1,960 of an overdraft (5,500 – 2,700 – 90 – 750) or (4,040 – 6,000)
  - Investment income: €7,200 (180,000 @ 6 per cent for eight months)
  - Investment income due: €2,700

Adjustment 6

Patents

	Trial Balance	
	Debit (€)	Credit (€)
Patents (incorporating three months' investment income)	60,600	
6% Investments 01/06/2014		160,000

Patents which incorporates three months' investment income are to be written off over a five-year period commencing in 2014.

- Calculate:
- The patents written off in the profit and loss account for 2014.
  - The patents figure to be entered in the Balance Sheet as at 31/12/2014.
  - The investment income figure to be entered in the profit and loss account for 2014.
  - The investment income due to be entered in the Balance Sheet at 31/12/2014.

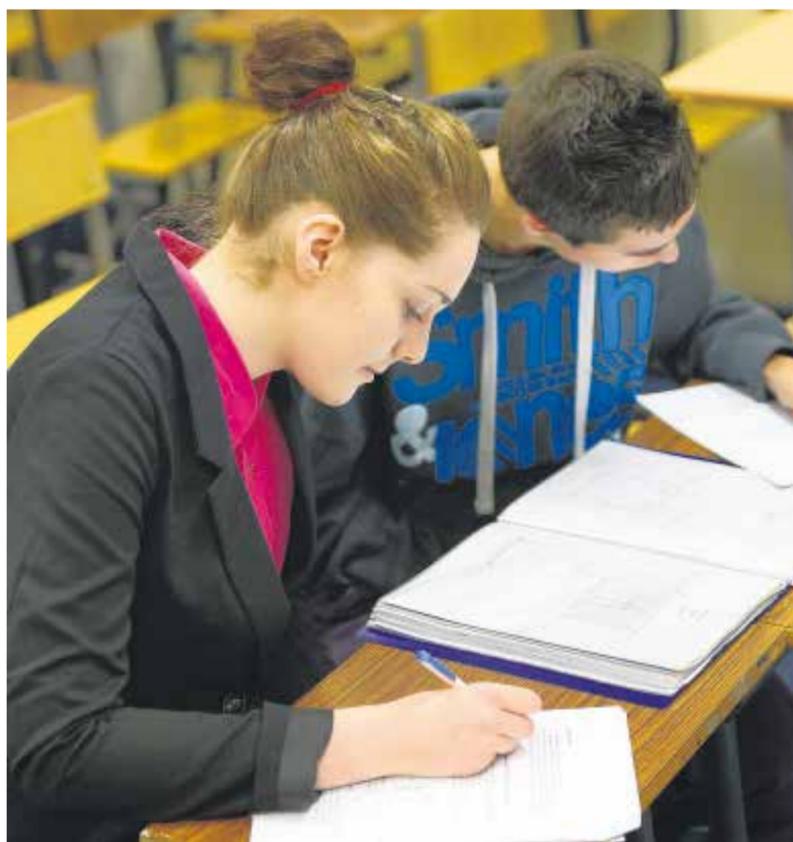
Adjustment 7

Repairs to Plant and Machinery

Trial Balance	
Debit (€)	Credit (€)
Purchases of raw materials	25,000
Repairs	3,000
Direct factory wages	19,000

Repairs to plant and machinery amounting to €1,400 were carried out during the year by one of the firm's employees. An amount of €300 of this expenditure consisted of parts taken from the firm's stocks while the remainder represented wages.

- Calculate:
- The purchase figure in the manufacturing account, direct costs section.
  - The wages figure in the manufacturing account, direct costs section.
  - The repairs figure in the manufacturing account, factory overheads section.



Students at the Institute of Education. PHOTOGRAPH: ALAN BETSON

How I Got My AI

Aaran Tiedt, accounting

Practise. Practise. Practise. I cannot get over how important repetition is in accounting. You can read over the notes again and again but if you don't practise questions, you'll be going in blind for the exam.

I spent hours practising questions until there were no more left in the book. But by the time the Leaving Cert came around, I was ready. It didn't matter what they asked me. No matter what adjustment came up, I had seen it at least once and didn't have to waste any time trying to figure out what to do.

Time management is another big factor in this exam. And again, repetition is the key to this. It's all well and good doing out a question for



homework and getting it right. But if you can't do it within the time limit then you'll forfeit points straight away. You can only get marks if you put pen to paper. After all, the exam corrector has no idea if you know how to do the questions or not. They can only go on what you've written.

One of the fundamental parts of every accounting question is the idea of double entry. Most students overlook this as there is no actual question on just double entry. And this is one of the major pitfalls in accounting. I've seen other students spend hours trying to learn off how each adjustment affects the accounts so they can regurgitate the same method in exams.

This can obviously work if the questions are the exact same. But if the question is slightly different, then your hours of learning go out the window. If you have a decent knowledge of double-entry, then understanding how to make adjustments becomes second nature. No matter how a question is phrased, you will be able to figure it out.

One last piece of advice is not to gamble. Every year, students look for patterns, but it's not worth it! If your gamble doesn't pay off and you can't answer your four questions, you risk losing a minimum of 20 per cent. This is too big a risk to play around with.

Learn your basics, practise questions regularly, and do not leave yourself short on questions to answer! Do this and you will succeed in Leaving Cert accounting.

**At a glance Leaving Cert accounting**  
Total Marks 400

**Section 1 (120 marks – Answer Question 1 OR any two other questions)**  
Question 1 – 120 marks  
Questions 2, 3, 4 – 60 marks each

**Section 2 (200 marks – answer any two questions)**  
Questions 5, 6, 7 – 100 marks each

**Section 3 (80 marks – answer one question)**  
Questions 8 and 9 – 80 marks each

Students must answer 4 or 5 questions depending on their choice in section 1.

Financial Accounting is examined in Sections 1 and 2.

Cost and Management Accounting is examined in Section 3.

Economics Introduction

# Nine top tips for the exam

Ray O'Loughlin

Leaving Cert economics consists of eight main examination question areas:

- Demand, supply, equilibrium, utility and elasticity;
- Costs and market structures;
- Factors of production (including economists);
- National income and the multiplier;
- Inflation, money, banking and monetary policy;
- International trade, balance of payments and the euro;
- Fiscal policy and taxation;
- The Government in the economy (including economic development and growth, population, emigration).

Separate questions on elasticity and costs are possible, and even two questions on broader topics such as national income, Government policy etc, so the list above is just a general guide on the topic areas for examination and is not a guarantee that the eight questions that appear will fall exactly under the above headings.

Allocate 25-30 minutes for each Section B question. This should allow sufficient time for reading over the paper at the beginning of the exam and re-reading your answers at the end. Remember to record your examination number on Section A as well as your answer book.

Take note of the marks allocated for each part which should give you an indication of the number of points required:

- 15 marks – 2/3 points
- 20 marks – 4 points
- 25 marks – 5 points

Each point generally earns two marks for identification of that point, with an extra three marks for development or explanation of the point, which has to include some new information and/or detail. Generally three sentences per point.

- 2 marks – identification
- 2 marks – explanation
- 1 mark – extra information, such as a figure or example

Note the key outcome verb used for each question or part of a question and identify what it requires in your answer.

- Define: give precise meaning
- Outline: describe the key points; no explanation needed
- Explain: give detail; show in a clear manner.
- Discuss: examine in detail, showing arguments for and against.
- Derive: work out from basic principles.
- Calculate: find out using formula and numerical data.
- Show: use diagram or example to assist answer.

Always use relevant diagrams to assist explanations in Micro, taking care that all elements of your diagram must be large (about half a page) and clear, labelled and properly titled, eg Price (P) Quantity (Q) MC, MR, Equilibrium etc. Diagrams must be accompanied with a written explanation.

Current facts, figures and relevant examples should be supplied, even if not required, as it will strengthen your answer and earn higher marks. Also try to link the subject content as far as possible with:

Examples of its application in everyday life

- "3 for the price of 2" shows the practical existence of the Law of Diminishing Marginal Utility.
- Aldi, Lidl, Tesco and Dunnes are firms in oligopolistic competition in Ireland.
- Ryanair charging different rates for the same flight is an example of price discrimination.

Economist to whom the topic is attributed

For example, specialisation and division of labour as advocated by Adam Smith; Ricardo and the Law of Comparative Advantage; Friedman on inflation and monetary policy; Keynes on fiscal policy; Malthus on population, etc.

Using current example to explain concept

For example, car ownership is a consumer good to you and me, but a capital good to a taxi driver; cosmetic products are an economic good to most females and few males as utility is subjective.

Generally Section B answers should be in point form, noting number of points required depending on marks allocated.

- Bullet point answers are preferred to essay style answers. This allows your explanation to be focused on one concept and prevents duplication.
- Try to spend as much time on your last point as the first one as marks allocated are usually the same.
- Give as much detail as possible especially with Macro questions embellishing your answers with detail on inflation, growth, employment government finances etc.
- Always stick to the question asked and avoid writing irrelevant information which may be correct but not applicable to that question. Also include figures and examples if available.
- Avoid elaboration on one / two points to the exclusion of others as again the fifth point usually earns the same number of marks as the first.

Make links

If figures are given in the question, you are required to use these to explain your answer. For example: If I spend 60 per cent of my income on product A and only 40 per cent on A when my income is doubled, is A a normal, inferior or giffen good?

Solution

Product A is normal as demand for A increases as my income increases.

60 per cent of 100 (assume income of 100) = 60  
40 per cent of 200 (income doubled) = 80

If you are asked to show the effects on the economy of the possible introduction of a tax on takeaway foods and fizzy drinks, focus on the implications of these actions on Irish citizens.

Box clever

Statistics show that students may find it harder to accumulate marks in Macro questions so be conscious of this in question selection. Micro questions however require precise definitions understanding and detail and can be harder to answer unless you know the concept or principle well.

Always start with the section or question you feel most comfortable with as this will give you confidence for the remaining ones.

Almost all questions in Section B will have three parts – an (a), (b) and (c) – with some subdivided further into parts (i), (ii) and possibly (iii), so try to be objective as to the amount of time need for each part.



Economics teacher Ray O'Loughlin with student Emma Mintern at the Institute of Education.

The time allocation is generally two minutes for every five marks, ie for 25 marks allocate roughly 10 minutes.

You will most likely be asked to show the effects on the economy of the following standard areas:

- Growth and the standard of living and employment
- Prices – inflate or deflate the economy
- Wages and industrial relations
- Demand and consumption
- Credit saving and investment
- Government revenue, taxation and the national debt

Balance of payments, imports and exports

The euro and interest rates

Detail and consistency

One-word answers, or phrases, without development are not sufficient. Generally the more relevant information you write the greater the chance of getting a good grade. Consistency is key to getting a good grade in economics. try not to spend too much time on your first question and end up writing very little on your fourth – they all carry the same marks so allocate 25-30 minutes for each.

	Section B Topics										
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Micro</b>											
Demand Supply & Equilibrium	75	75	25	75	45	30	60	75	15	75	
Elasticity	75		50		30	45	15		60		75
Costs			75	75		75					75
Markets											
Perfect Competition			65		30			75			
Monopoly & Price Discrimination	50	10		45		75					75
Imperfect Competition	55	25				75					75
Oligopoly	20			75					75		
Factors of Production :											
Land	75										75
Labour		65	25		75	20	30	75			
Capital				75					75		30
Enterprise			50				45				45
Economists	10				20	15		20			
<b>Macro</b>											
National Income & Multiplier	75	75		75	75	75	50	75	75	75	75
Inflation, Money & Banking		75		75	30	75	75		75	75	
International Trade		75	75		75	60	75	75	75	75	75
The Government:											
Fiscal Policy & Taxation	75	75	75		75	75	75	75	75	75	
Aims & conflicts	75	30	55	60	25		25	75	75	30	55
Economic performance				15	75				55		20
Unemployment		30	20			55					
Dev. Growth, Population & Migration	75	15	75	75			50	25		45	75

Economics Topical areas

# State of affairs



Ray O'Loughlin

Current facts, figures and relevant examples will strengthen your answers – here are some topical areas to cover ahead of the exam

## Increase in employment

Unemployment reached a high of 15.1 per cent in 2011 but most recent figures show improvements in many areas with a conservative estimate of 10.2 per cent for 2015 falling further to single figures by the end of the year. The ESRI estimates almost 100,000 jobs were created since 2012, about a quarter of the jobs that have been lost since the crises began.

Employment grew in 10 of the 14 sectors of the economy in 2014, according to the CSO, with the largest increases recorded in agriculture, food and accommodation services, along with professional scientific and technical activities. Even though demand far outweighs the growth in employment, this can be explained by the fact that employers are reluctant to hire staff as they remain cautious about the future. Other factors include exceptionally high payroll costs that follow the hiring of staff, as well as the expiry of patents in the pharmaceutical sector. If this rate of job creation continues unemployment may fall below 10 per cent next year and return to full equilibrium or full employment by the end of the decade.

A worrying fact regarding unemployment is that more than 180,000 people, accounting for 47 per cent of the jobless total, are long-term unemployed.

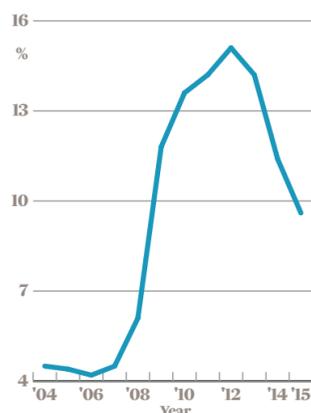
The **Live Register** is not designed to measure unemployment as it includes part-time workers, seasonal and casual workers and those wishing to claim benefits in order to support their income and or

be eligible for public service housing, FÁS courses, jobseekers' benefit. Unemployment is measured by the **Quarterly National Household Survey**, which is seasonally adjusted, and it currently shows 304,000 persons unemployed.

The **labour force in Ireland**, ie the total number of the population of working age available for work, is 2.1 million people. The **workforce** is the total number at work, ie the labour force less the number of people unemployed. Nearly 1.9 million people are now in employment – the highest level since 2009.

See unemployment charts below.

Unemployment - Ireland



■ Clockwise from above: water charges are among the new taxes introduced since 2007/2008; Ireland exited its three-year bailout programme in February 2014; Intel spent €5 billion upgrading its plant in Leixlip, Co Kildare employing 5,000 construction workers.

PHOTOGRAPH: ALAN BETSON AND CYRIL BYRNE

## Deflation and flat growth

Ireland has traditionally suffered from the disease of inflation, which brings with it the spiral effects of loss of competitiveness and increased wage demands. As growth has become flat worldwide, but most especially in the EU, the ECB is facing pressure to adopt growth-boosting measures to stimulate demand as inflation in the euro zone area has dropped to 0.4 per cent – the lowest rate since 2009 and well below the ECB recommended figure of 2 per cent.

Growth in Germany, France and Italy – the big three, comprising two-thirds of euro zone GDP – dragged down the overall growth figure from 0.9 per cent to 0.7 per cent. Poor demand reflects itself in lower prices and poor growth figures, and this threat of deflation will reduce the euro exchange rate also. The weak euro zone data contrasts with the positive figures from the US and UK, while Irish economic forecasts remain positive. The Irish economy is expected to grow by more than 4 per cent for the next five years, suggesting Ireland is the fastest growing in the euro zone.

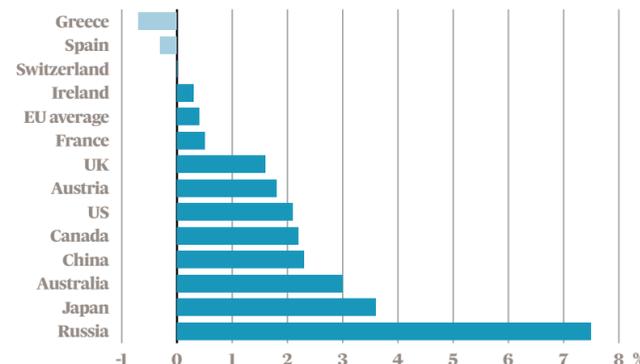
See inflation charts to the right.

### Quantitative easing

Quantitative easing, whereby a central bank creates new money electronically to create demand and counteract deflation, is being introduced this year by the ECB as a measure to counteract deflation, flat growth and boost demand. This process aims to directly increase private sector spending by flooding financial institutions with capital, to promote spending and liquidity, and to return inflation to the EU target of 2 per cent. The ECB will print €1.14 trillion in new money to buy government bonds from banks and other investors.

Starting this month, the ECB will spend €60 billion per month for 19 months on this. Ireland stands to benefit to the tune of €500 million per year. Greater growth in the euro zone economy will boost Irish exports and a weaker euro will help exports to the UK, US and other non-euro markets. Other factors such as OE will keep interest rates low.

Inflation - International



Inflation - Ireland



Ireland - GDP and GNP



■ **GDP** is the total market value of goods and services produced by all factors. It is a measure of economic activity in a country as it does not deduct income that leaves its borders.

■ **GNP** is the value of all goods and services which accrues to the permanent residents of a country. This is a better measure of the standard of living in a country as it reflects income that remains in Ireland after economic activity.

■ **Factor income** is the difference between domestic and national income and is made up of multinational/FDI profits repatriated back to mother country.

– Interest paid on the foreign element of National Debt

– Immigrants remittances sent back to immigrants country of origin.

See chart (below left) on Ireland's GDP and GNP.

## Importance of the US to Ireland

In 2011, FDI from the United States in Ireland hit an all time high of almost €150 billion, which is 54 per cent of our total exports and one-third of our GDP. Ireland is the premier location worldwide for US FDI in the IT sector and fourth worldwide for chemicals. There is €200 billion worth of US investment in Ireland, a country ranked at over 40 in economic size globally.

Even though Ireland became the second euro zone country to be bailed out in 2010, corporate America still continues to have confidence in corporate Ireland.

Not alone do these FDIs employ more than 160,000 Irish workers directly and more than 100,000 indirectly, they contribute billions in corporation tax and employers' PRSI. A further €15 billion is spent on payroll, goods, and services used and employed in Ireland.

Much of the US investment is attracted through the fact that we are the only English-speaking member of the euro zone, have a low corporation tax rate, and our geographic location is a perfect fit for a link between the US and the EU.

Continued on page 18

## Exiting the bailout

The European Union approved an €85 billion rescue package for Ireland by member states of the EU through the European Financial Stability Fund. €10 billion of this was used immediately to recapitalise the banks, with another €25 billion set aside for a contingency fund if losses spiral even further out of control. Another €50 billion was set aside to meet the budgetary requirements of the State.

All this has been based on a guarantee that Ireland will meet its budgetary deficit target of 3 per cent of GDP by this year, which is eminently achievable.

This has been achieved through a strict system of "austerity measures" which necessitated considerable taxation increases and reduced public expenditure. Ireland exited its three-year bailout programme in February 2014 as employment has been growing vigorously, consumer confidence is at a six-year high and property prices are rising again. The EU, ECB and IMF troika has left town and Ireland is looking to restore its sovereignty once again.

## High level of taxation

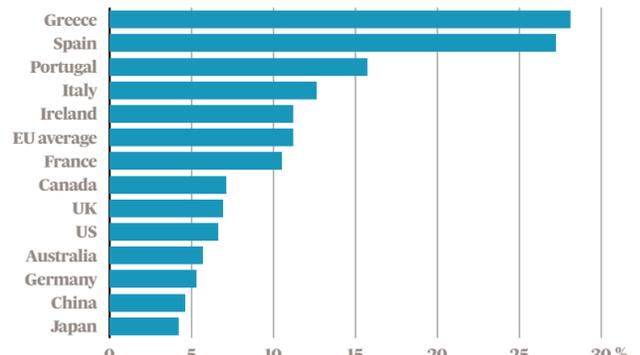
Real wages have fallen steadily since 2009 due in no small way to the introduction of the universal social charge and income levy. Most people now are finding it harder to make ends meet, especially the middle-income earners who have to face the burden of a whole array of new taxes and tax rates that have been introduced since 2007/2008. These include:

New taxes
Property tax
Water tax
USC on income
Pension and insurance levy
Carbon tax

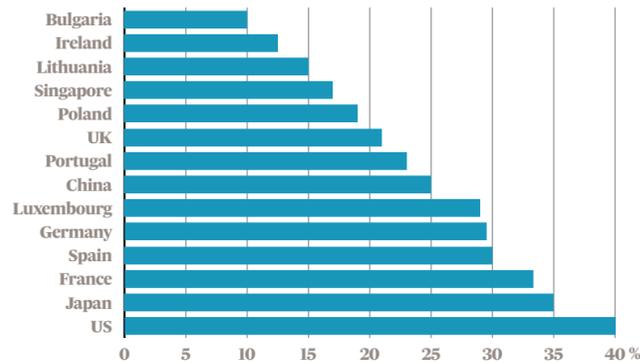
Increased rates on existing taxes
VAT up from 21% to 23%
DIRT up from 20% to 30%
Capital gains tax up to 30%
Increased rates on excise and motor car tax

See bar chart on corporation tax rates to the right.

Unemployment - International



Corporation Tax rates



Economics (H) At a glance

Total marks: 400 marks  
Time: 2 hours 30 mins

Section A

100 marks / 25-30 minutes  
Answer six questions out of nine, although as all are short questions, all nine should be attempted. The first five questions carry 16 marks; the final four carry 17 marks. Section A questions are varied, with little pattern other than there is usually a question on:

- Market structures
- One of the laws
- One or two definitions required with examples

■ A topical issue such as water charges, debt restructuring, social costs of EirGrid pylon installations etc.

They tend to be repeated over the years so practice on past papers is essential. Textbook definitions are expected to be accurate when asked to "define". An example should also be given with the definition, even if not asked.

Section B

300 marks / 2 hours  
In this section students must answer four questions out of eight with all questions carrying 75 marks each. Traditionally there have been 3-4 micro questions and 4-5 macro questions, but in recent times there has been a combination of micro and macro questions included together, so students should be prepared for such eventualities.



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Economics Topical areas

Continued from page 17

Major US deals with new brands in 2014

- Intel spending €5 billion upgrade in Leixlip employing 5,000 construction workers.
- Regeneron pharmaceutical taking over Dell in Limerick to employ 300 workers.
- Tyco in Cork with 500 positions.
- Hedge Services second operation in Cork to employ 200.
- Others such as Airbnb, Johnson and Johnson, Yelp, Alexion, Workday will employ more than 1,000 collectively.

Why do FDI's still locate in Ireland?

- 96 per cent talented workforce
  - 91 per cent English speaking
  - 88 per cent corporation tax rate of 12.5 per cent
  - 86 per cent access to euro zone
- Ireland has a world-class workforce recognised for our flexibility and adaptability. Forbes has ranked Ireland as the best environment for business internationally. This is certainly another major factor added to the many cultural ties and similarities, including diaspora support and many more intangible factors.

Pharmaceutical industry in Ireland

Ireland is one of the leading locations for the pharmaceutical industry in Europe and punches far above its weight in relation to the fact that we have a population of only 4.5 million.

About 120 overseas companies have plants in Ireland, including nine of the top 10 in the world; 15 of the top 25 medical technology companies also have plants here.

The main companies in Ireland include Pfizer, Johnson and Johnson, Novartis and Genzyme, with Cork singled out as the "pharma capital" of Ireland.

This industry has had a presence here since the 1960s, producing active ingredients for export. Subsequently plants were set up to produce finished products, and more recently research centres have become involved with Irish universities.

The pharmaceutical industry currently employs more than 24,000 people directly with an equivalent number providing services to it. It pays tax to the Irish government of more than €3 billion per annum.

Ireland is now the largest net exporter of pharmaceuticals in the world, representing more than 50 per cent of our total exports from the country. The total investment by the sector in the economy exceeds €40 billion of which €7 billion has been invested in the past 10 years.

Compliance to standards is a major problem for this industry as up to 1,000 proposed products may be researched to secure one for distribution. Recently Elan/Biogen spent about €1 billion on an Alzheimer's drug, which failed at the penultimate test in clinical trials.

With many of the products coming out of patent protection the pharmaceutical industry in Ireland may face more difficult times ahead. Company's can face possible losses of 90 per cent of sales once a patented drug goes head to head with a generic version as consumers switch to the cheaper alternative.

Success of Nama?

The National Asset Management Agency is the Government's solution to the banking crisis, aimed at cleaning up the banking system by taking toxic property loans off its balance sheet. Nama paid about €32 billion for €74 billion worth of face-value loans using Government bonds.

Proposed advantages to the economy

- Increase credit into the Irish economy, which will create a healthier loan book for the banks.
- Prevent total nationalisation of the banks, which would be even costlier to the Irish taxpayer.
- Enhance Ireland's reputation internationally by taking decisive correctional action, which should increase the flow of foreign capital back into the State.
- Earn future profits as loans of €80 billion have been bought at a discounted cost of €54 billion
- Jobs in the financial services industry are guaranteed into the future.

Anticipated disadvantages to the economy

- Nama is a long-term solution as it may take up to 15 years before the current financial turmoil is solved.
- The size of the national debt has increased dramatically as has the interest that has to be paid per annum.
- Nama will become the biggest property owner in the State, which is not in the best interests of the public as wealth will be transferred from the general population to the wealthy property owners.

Results by January 1st

Nama has paid down 43 per cent or €13 billion of senior debt so far, which is two years ahead of schedule. One hundred of its 800 debtors have so far exited Nama since it began its work. This has been reflected in the upgrading of Ireland's credit rating by both Moody's and Standard & Poors to A-level once again.

In addition to debt repayment, reserves generated by Nama to the value of just less than €1 billion have been drawn down and invested in a range of residential and commercial projects with further plans for substantial investment in this year and in 2016 in the Dublin docklands area.

Nama is well advanced in its primary aim of repaying its liabilities, but by building confidence it should also make a significant contribution more generally to the Irish economy.

Nama's current mantra is now one of "funding viable projects, identifying attractive opportunities and delivering a return for the taxpayer".

Austerity measures

Austerity is the policy of deficit cutting via reduction in benefits and public services. It is often coupled with increased taxation to demonstrate fiscal solvency to our creditors, who in this case are the troika. Initially when the bailout was agreed, Ireland prepared the National Recovery Plan, which included an adjustment of €10 billion in expenditure savings and an extra €5 billion in taxes. Specific measures in this programme include:

- Reduction in public service



Above: 250 Irish emigrate every day; top right: Nama's current mantra is now one of "funding viable projects, identifying attractive opportunities and delivering a return for the taxpayer".

numbers and existing public service pensions as agreed in the Croke Park and Haddington Road agreements.

- Fiscal measures such as:
  - Increase in carbon tax
  - Reduction of pension tax relief and health expense relief
  - Introduction of site valuation tax/property tax/household tax
  - Introduction of universal social charge of 7 per cent and cuts to personal credits
  - Capital gains tax increased by 50 per cent to new rate of 30 per cent
  - Property tax and water charges introduced

Many are now paying 30 per cent more tax, with middle- and lower-income groups the worse affected. A damning statistic on austerity is the fact that €17.1 billion in income tax was collected in 2014 compared to €13.5 billion three years ago when 300,000 more people were working.

Ireland has conformed well to these measures thus far and has been identified by creditor countries as a shining example of how to suffer austerity. Other bailout recipients such as Greece, Portugal, Spain and Cyprus are nowhere near as far advanced as Ireland in relation to emerging from the crisis. We have made an appearance back in the bond markets, despite being in a bailout programme.

Investors also seem relatively confident that Ireland will not default as exhibited by lower long-term Irish bond yields than other bailout countries. Our strong external performance and sustained recovery in the domestic economy is confirmation that austerity is working, and this continuing positive assessment of Ireland has helped international credit rating agencies Standard & Poors, Fitch, and Moody's to upgrade Ireland once more up to A status.

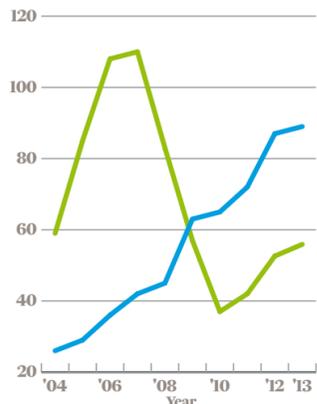
Emigration and immigration

Emigration for last 12 months - 89,000  
Immigration for last 12 months - 55,900

Almost 250 Irish emigrate per day, with Canada as a destination increasing in popularity by 27 per cent since last year. This is the highest level of emigration since the famine. Ten per cent of all young people in Ireland emigrated during the recession.

During the Celtic Tiger period, net immigration was more than 50,000 per annum. This has now gone into reverse with a net emigration figure of 34,400. Traditionally emigration was caused by "pull" factors such as better pay and conditions abroad and perhaps a desire to see the world.

Migration ('000s)



spending and is cyclical in nature. In 2013 more than 150,000 visa applications were made. Twelve per cent of our population of 4.96 million is non-Irish at present.

Exports/imports

Exports are the only jewel in the economic crown, growing at the rate of 7 per cent, reaching €185 billion in 2013 for all goods and services, up from €183 billion in 2012. The pharmaceutical and chemical sectors now account for half of all the Irish goods (merchandise trade) exported.

Food exports have recovered to reach their highest level since the global financial crisis began. The machinery and transports goods industries export only 25 per cent of what they did a decade ago. Much of this is computer manufacturing that has moved production to other, cheaper wage rate economies.

Imports are also on the rise but at a slower rate. Much of the increase is as a result of raw materials, with consumer goods and capital imports contributing very little to the overall increase.

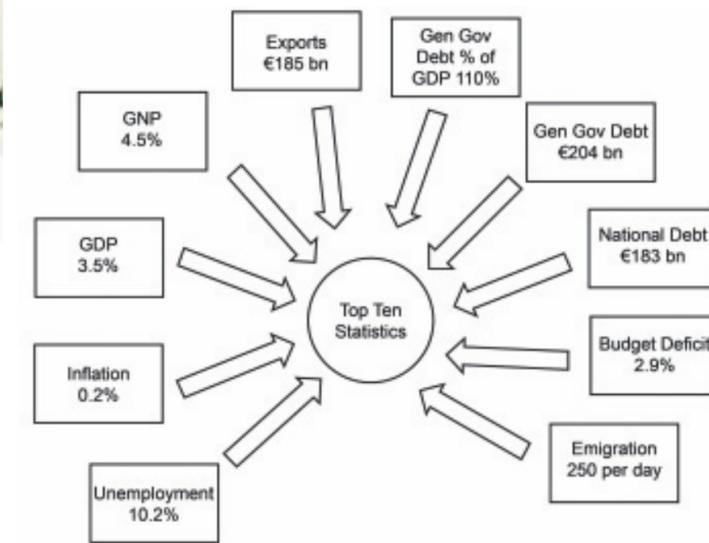
While exporters are doing well, one must remember that more than 85 per cent of Ireland's manufactured exports and 94 per cent of Ireland's international service exports are from branch plants of multinationals operating in the state. "Export-led growth" does not always convert into jobs as our SMEs and indigenous industries are still struggling to survive. We are in danger of becoming a "twin track" economy, with the FDI's being the main beneficiaries.

Ireland's main exporting sectors

- Pharmaceuticals and chemicals
- Computer services
- Business services
- Financial services and insurance
- Food and beverages
- Medical devices

Terms of Trade

In 1990 Ireland's terms of trade was 100; in 2013 it was 77.5. This shows that the



value/price of exports in terms of imports has decreased considerably over the past quarter of a century. Our exports earn less, or we can purchase less imports, for the same quantity of exports. This is primarily due to the increased price of oil.

Balance of Merchandise Trade	
(Visible exports - visible imports)	= €36.18 billion
Balance of Invisibile Trade (services)	= -€28.5 billion
Balance on Current a/c (1.6 per cent of GDP)	= €7.6 billion

See chart on top 10 statistics (above) and table on 2015 Tax Revenue (right).

Exam Times Online  
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How I Got My AI

Sally Kiernan, economics



If and AI in economics is your goal, it is definitely achievable. You must keep focused, ditch all the distractions and commit yourself to the weeks ahead.

At this stage I believe all your work should be exam focused. Frequently attempting past questions and writing up your own concise notes from your learning material will contribute significantly towards your result. However to maximise your grade, I believe it is just as important to pay attention to current events, exam timing and presentation - as well as to your study.

Economics in Ireland has been global news in the past decade. The Leaving Cert paper in June 2014 reflected how it expects students to keep up to date with changes in the economy. The paper asked students to "outline the possible implications for the Irish economy of having exited the troika bailout programme". Few textbooks are this current, so the responsibility is on the student to be aware of these changes in the economy and actively seek the statistics.

I listened to current affairs programmes on the bus on the way to school every morning

In preparation for my exams I listened to current affairs programmes on the bus on the way to school every morning. I became more confident and familiar with current affairs and economic jargon, which ultimately used in my exam.

Fortunately the economics paper is generous with time. Nevertheless this time has to be spent effectively. I found it beneficial to take 10 minutes before I picked up a pen to read the paper through. This gave me a chance to choose my four long questions. In economics it is vital to read the questions thoroughly as they are often not as straightforward as they seem. Time should be allocated to all questions based on the weight of the marks.

With your plan in place start answering the paper. I attempted the short questions first as they are worth a quarter of the paper. These questions should not be overlooked in your preparation or rushed on exam day.

The presentation of your script should be accessible for the examiner. Market structure graphs should be drawn clearly and with no ambiguity. Throughout your paper it should be clear that with each point that you make you have two distinct facts to back up your point. In the exam I used a highlighter to highlight headings to make it obvious to the examiner. When marks are being allocated your presentation will likely go in your favour. Best of luck in June.

2015 Tax Revenue

Tax Revenue	€bn	€bn
Income Tax	18.4	
VAT	11.6	
Excise	5.3	
Corporation	4.6	
Stamp Duty	1.2	
Local Property Tax (LPT)	0.4	
Customs, CGT, CAT	1.1	
Non Tax Revenue	26	
2015 Budget		
Tax Revenue	42.7	
Non Tax Revenue	26	45.3
Supply Services	37.6	
Central Fund Charges	10.9	-48.5
Current budget deficit		3.2
Capital Receipts	16	
Less Physical Capital Formation	-4.1	2.5
Exchequer Borrowing Requirement (2.9% of GDP)		5.7

Economics Section B – sample questions and solutions

# 10 sample questions for Section B

Ray O'Loughlin

Each question below is typical of Section B and carries 25/30 marks

## Question 1

(i) Distinguish between normal, giffen and inferior goods.  
 (ii) "All giffen goods are inferior goods but not all inferior goods are giffen goods."

**Solution (i)**  
**Normal goods**  
 ■ Obey the law of demand in that as price rises, demand falls; demand rises when price falls.  
 ■ Have a positive substitution and income effect.  
 ■ Examples include books, holidays.

**Giffen goods**  
 ■ Do not obey the law of demand and are abnormal in their response to price changes.  
 ■ A large percentage of the income of low-income families is spent on giffen goods.  
 ■ They are generally goods of low quality such as rice or bread which, as their price rises, families are forced to buy more of because they cannot afford other goods, as their real income is less.

**Inferior goods**  
 ■ Are abnormal in their response to income changes, ie people buy less of these as they have more income such as blank CDs.  
 ■ A small percentage of income is spent on inferior goods.  
 ■ They obey the law of demand.

**Solution (ii)**  
 To be a giffen good the product must be an inferior good as all giffen goods are inferior goods but not all inferior goods are giffen goods. A large percentage of the income of low-income families is spent on a giffen goods.

They are generally goods of low quality, ie own brand bread or rice, and they are abnormal in their response to price changes.  
 Giffen goods are a special type of inferior good as, like inferior goods such as blank CDs, they have a negative income effect, ie you buy less giffen goods the more money you have. But unlike inferior goods they break the law of demand, therefore all giffen goods are inferior goods, but not all inferior goods are giffen goods

## Question 2

Define  
 (i) Price elasticity of demand  
 (ii) Cross elasticity of demand  
 (iii) Identify three factors that determine price elasticity of supply  
 (iv) Assume income elasticity of demand for good A is + 2.5 and total sales in 2012 were 5,600 units. Calculate the expected total sales for the year if consumer's incomes are expected to fall by 5 per cent in 2013

**Solution (i)**  
**Price elasticity of demand**  
 ■ Measures the responsiveness of a change in demand to a change in price.  
 ■ It tells you how big or small the change in quantity demanded will be in advance of any proposed change in price.

**Sol<sup>n</sup> % ΔQx / % ΔPx**  
**Cross elasticity of demand**  
 ■ Measures the percentage change in quantity demanded of one product as a result of a percentage change in the price of another good  
 ■ Substitute goods will have a positive value answer, while complementary goods will have a negative answer

**Solution (iii)**  
**Factors that affect PES**  
 1) Is the firm's capacity level reached or can more be produced?  
 2) Is the nature of the product suitable for an increase in production?  
 3) How mobile are the factors of production if supply is to be increased?  
 4) Can production costs be reduced or at least be kept at the same per unit value if production is to be increased?

**Solution (iv)**  

$$\% \Delta Q = \% \Delta Y \times YED$$

$$= -5\% \times 2.5$$

$$= -12.5\%$$

$$Q_2 = 4,900$$

## Question 3

(i) What are the key features of an oligopoly market?  
 (ii) Explain the long run equilibrium position of a firm in oligopoly.

**Solution (i)**  
 ■ The market is dominated by a few large producers who have the power to influence the selling price – a high concentration ratio



exists when a small number of firms account for a large percentage of total output.

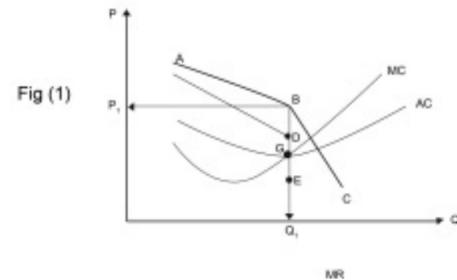
■ Product differentiation exists. Large amounts of money are spent on emphasising product differences. Firms resort to non-price competition in an effort to increase market share.  
 A good example of this is television, where the competition for viewers is about which strain of programming is being shown, eg soaps or sports.

■ Firms are interdependent. Every decision a firm makes will be based on the likely reaction of competitors and fact that oligopoly firms interact strategically.  
 If they collude they jointly cut back on production to drive up prices.  
 If they compete they both try to increase production to undercut each other on price.

■ There are barriers to entry such as high start-up costs, economies reached at very high production levels, brand proliferation where many brands are produced, and advertised under the same umbrella.  
 Collusion often exists to restrict competition between themselves and thus reduce costs. Firms may choose to collude rather than compete.

■ Price stability exists as price competition is fruitless so firms engage in intense product differentiation and other nonprice competition.

**Solution (ii)**  
 ■ See Figure 1 (right)  
 ■ Equilibrium output occurs at G where MC = MR, MC cuts MR from below and is rising.  
 ■ Firm is making maximum profit with quantity of Q1 and price of P1.  
 ■ Equilibrium occurs where a kink occurs in the demand curve.  
 ■ As barriers exist, firms may earn SNPs if AR > AC.  
 ■ Market price will remain constant at Z as demand is elastic above and inelastic below



## Question 4

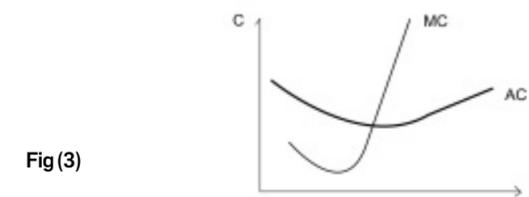
With the aid of two clearly labelled diagrams, explain the relationship between:  
 (i) The short-run and long average cost curves.  
 (ii) The short-run average cost curve and marginal curve

**Solution (i)**  
 ■ See Figure 2 (right)  
 ■ The short-run average cost curve is shaped like a shallow U, decreasing due to falling costs per unit then increasing due to the law of diminishing returns.  
 ■ Each SRAC curve represents a different size or scale of firm size.  
 ■ The long-run average cost curve is made up of all the lowest points on the different SRAC curves, falling due to economies of scale and eventually rising as diseconomies set in.  
 ■ See Figure 3 (right)  
 ■ The MC curve cuts the AC curve at the lowest point as:  
 - When MC less than AC then AC is rising  
 - When MC is greater than AC then AC is rising  
 - When MC equals AC then AC is constant and at a minimum  
 - Therefore MC cuts AC at the lowest point

Fig(2)



(2) the short run average cost curve and marginal cost curve.



Fig(3)

## Question 5

(i) Explain the difference between MPP, MRP, MR.  
 (ii) A teacher earning €40,000 a year retires to set up a private grind school and now earns €70,000 a year. Find this teachers:  
 - Supply price  
 - Transfer earnings  
 - Economic rent

**Solution (i)**  
 ■ Marginal physical productivity (MPP) is the extra output produced as a result of the employment of an extra factor, eg labour.  
 ■ Marginal revenue productivity (MRP) is the extra revenue earned as a result of the employment of an extra factor of production, eg labour.

A TR

■ Marginal revenue (MR) is the change in total revenue (TR) as a result of selling one extra unit.

**Solution (ii)**  
 ■ Supply price is €40,000 as this is the minimum amount the teacher is willing to supply their labour for and keep them in that use.  
 ■ Transfer earning is €70,000 as this is the earnings in the next best alternate use  
 ■ Economic rent is €30,000 because this is the extra earnings this teacher is capable of earning over and above their supply price, ie rent of ability.

## Question 6

(i) Explain what is meant by national income.  
 (ii) GDP is declining at a slower rate than

GNP in Ireland at the moment, but which is a better indicator of economic activity and why?

**Solution (i)**  
**National income**  
 ■ This is the total income accruing to the permanent residents of a country as a result of engaging in economic activity.  
 ■ It is the total amount of money in circulation in a country at any one time.  
 ■ It is often referred to as gross national product (GNP).  
 ■ National income is the total wealth gained as a result of supplying the factors of production.

**Solution (ii)**  
 GNP is less than GDP at the moment, because net factor income from the rest of the world is negative. This is due to:  
 ■ The repatriation of profits by companies resident in Ireland such as US multinationals.  
 ■ The repayments on the foreign element of our national debt. Interest on the national debt.  
 ■ The remittances of immigrants in Ireland sent abroad.

However GDP is a better measure of economic activity in a country as it shows the total production within its borders and the amount of goods and services produced, along with the employment it creates.

## Question 7

Discuss the effects of a decrease in the rate of economic growth in the economy

**Solution**  
 ■ **Reduced employment in the State**  
 A fall in GNP will lead to reduced demand for goods and services, which will mean less labour being demanded for the production of these goods and services. This will add to the 10.2 per cent of the workforce currently unemployed.

■ Continued on page 22



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## Economics Section B – sample questions and solutions

Continued from page 21

**Decreased Government finances**

As spending decreases so do indirect taxes such as VAT; fewer people are at work and are paying less income tax; less property is being bought therefore decreased stamp duty collected. The Government is not only collecting less taxation revenue but now also has to pay out more in welfare to sustain the growing unemployed.

**Fall in standard of living**

Lower GNP will result in reduced wealth in the economy allowing fewer consumers to buy goods and services. Reduced demand in the economy follows, which will have an adverse effect on consumers' standard of living.

**Foreign direct investment may suffer**

As Ireland struggles to come to terms with debt repayments, existing FDIs may be tempted to relocate elsewhere. It will become very difficult to attract new investment; existing investors may not see a return to growth immediately.

**Reduced inflation in the economy**

As this is an advantage with prices increasing at a lower rate – or in some circumstances, such as food and housing, decreasing in price. This deflation can have a positive effect on the economy as it increases consumers' real income and reduces the price of exports.

## Question 8

One of Ireland's main aims is to control our huge national debt. Discuss four other economic aims of the Government and use relevant information to justify your choice.

## Solution

(i) *Achieve economic growth*

Ireland's growth rate has been poor since the recession but general opinion seems to indicate a growth rate of up to 4.7 per cent next year after struggling at 0.3 per cent in 2013 but rising to 2.7 per cent in 2014. The Government's job is to seek to improve economic growth so that jobs are created investment takes place and the states financial position improves.

(ii) *Reduce unemployment*

Pursue policies which will improve our competitiveness, boost exports and create jobs. Unemployment is currently about 10.2 per cent having fallen from 15 per cent but this may be due to the fact that 250 Irish are emigrating per day.

(iii) *Improve infrastructure*

By investing in schools buildings, hospitals, public transport etc, the Government hopes it will not only create jobs but encourage long-term investment and improve the economy.

(iv) *Broaden the tax base*

The Government has introduced the household charge, septic tank inspection charge and a water metering tax. This will provide stability and increase certainty for Government revenue.

## Question 9

Ireland's "black economy" activity results in losses of more than €1 billion to the exchequer per month.

(i) State and explain three economic effects of this activity.

(ii) Outline two economic measures the Irish Government could take to discourage this activity.

## Solution (i)

**Loss of tax revenue for the Government:** Tax revenue is essential for the provision of State services and capital investment in the



future. This will suffer as revenue collected declines.

**Pressure on existing finances and services:** With the loss of revenue the government may have to cut spending, find additional tax revenue or borrow to finance the deficit, which will be very difficult in light of current fiscal pressures.

**Decline in legitimate business activity:** Jobs will be lost as these businesses suffer a decline in sales and economic activity as consumers choose the cheaper option, which may be unsafe because of lack of regulation.

## Solution (ii)

**Reduce direct taxation** so that Irish citizens may be more inclined to be more tax compliant as their real income is higher. Reduced indirect tax will mean prices will fall so black market products may not be as attractive.

**Improve enforcement** by Revenue. Deterrents such as heavier fines and longer court sentences, coupled with a more comprehensive tax system which makes eva-

luation more difficult, may lessen black market activities.

## Question 10

Discuss the economic reasons why Ireland is experiencing a high level of emigration.

## Solution

**Foreign nationals returning to their mother countries:** as the decline in Ireland's economy deepened, many foreign nationals who came to work here during the boom returned home due to lack of employment, decreasing wage rates and increased cost of living.

**Rising taxation levels in Ireland:** the Irish Government has introduced various new taxes here such as USC on income, higher level of VAT and carbon taxes, together with property and water charges. These taxes have reduced real income and increased the "push factor" for emigration.

**Job opportunities and experience available abroad:** the "pull factor" associated

with migration to Canada, Australia and England is very attractive as our young skilled and qualified professionals are seeking to develop their skill base abroad.

**Lifestyle and income available abroad as opposed to austerity and recession at home:** Some still see little future in Ireland as their prospects are poor. They see a better lifestyle and more opportunities abroad.

**Wage rates in Ireland falling:** as wage rates fall here, the standard of living also decrease, so people are seeking a better standard of living abroad.

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## Economics Ordinary Level

## Sample questions for both sections

## Ray O'Loughlin

The structure, layout and timing of the ordinary-level economics paper is the same as at higher level

## Section A

Attempt the short questions first as they tend to be the best answered part of the whole exam. Do all nine questions if you know the answers as your best six will be taken for marks.

Try to give as much information on each that you can fit in the space allocated, including an example if appropriate.

## Sample questions

**Define Economics.** Economics is a social science which studies how scarce resources are best distributed to satisfy wants and needs.

**State three economic problems less developed economies are experiencing.**

- Rapid population growth
- Famine
- Uneven distribution of wealth

**Define the term "marginal propensity to save".** The fraction / proportion / percentage of extra income that is spent on savings.

**Adam Smith developed four canons of taxation. Equity was one of these. Explain "equity" and state two others.** Equity describes the ability of each person to pay tax must be taken into account. Other canons are economy, certainty, convenience.

**An economic good is described as being transferable. Explain. State two examples of goods that are non-transferable.** It must be possible to pass the good from one person to another. Examples: beauty, intelligence.

**What is meant by the long run in economics?** A period of time during which all factors of production can change.

## Section B

## Sample questions

**State the four factors of production.** Land, labour, capital and enterprise.

**In each of the following, state which factor of production it represents.**

- Factory buildings: Capital
- Rivers: Land
- Carpenters: Labour
- Shareholders: Enterprise
- Transport Vans: Capital

**State and explain two reasons why entrepreneurs are important for the Irish economy.** They organise production: they are managers who borrow the capital, hire the staff, purchase the raw materials and generally make sure the finished good is manufactured and sold to market.

**They provide employment:** as a result of entrepreneurs, jobs are created to manufacture product for the market.

**Suggest two ways in which the Irish Government could encourage more individuals to become entrepreneurs.**

More generous taxation incentives: encourage risk taking by tempting prospective business people with tax breaks grants and subsidies.

**The existence of a sound economy:** if investors know that the Government is controlling inflation and wages and there is economic growth in the country.

**Explain what is meant by the term "price inflation" and name the main index used to measure inflation in Ireland.** Price inflation is a sustained increase in the general level of prices. Measured by: Consumer Price Index.

**Outline four consequences of a fall in the rate of inflation.**

- Higher standard of living: because of the lower cost of living there is increased purchasing power which will result in increased standard of living.

- Increased competitiveness: as inflation is lower in Ireland than our trading partners, our competitiveness will increase exports.

- Increase in unemployment: as prices lower firms may be forced to reduce their labour force to keep costs low.

- Tax revenues decrease:



with lower prices the Government will collect less tax revenue on VAT, plus less will be collected in corporation's tax due to falling profits.

**Explain the following terms which are commonly used in estimating national income:**

- net factor income
- transfer payments
- income in kind

**Net factor income** is the difference between incomes earned by foreign factors of production in Ireland and sent abroad, and income earned by Irish factors of production abroad and returned to Ireland.

**Transfer payments** are payments received for which no factor of production has been supplied.

**Income in kind** is any payment received in nonmonetary form.

**Explain the term "the Multiplier" and explain the variable elements in the formula.**

The Multiplier shows the precise relationship between an initial injection into the circular flow of income and the eventual increase in national income from that injection.

**MPC / marginal propensity to consume** – the proportion of extra income that is spent.

**MPM / marginal propensity to import** – the proportion of extra income that is spent on imports.

**MPT / marginal propensity to tax** – the proportion of additional income that is subject to tax.

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