

General Certificate of Education
January 2003
Advanced Level Examination



ACCOUNTING **ACC6**
**Unit 6: Published Accounts of Limited Companies
and Accounting Standards**

Monday 20 January 2003 Morning Session

In addition to this paper you will require:

- an answer book for Accounting.

You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC6.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 5 is the synoptic question which assesses your understanding of the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

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Answer **all** questions.

1

Total for this question: 10 marks

According to SSAP 9:

“... stock is to be valued at the lower of cost and net realisable value...”;

cost is defined as “... that expenditure which has been incurred in the normal course of business in bringing the product or service to its present location and condition ...”.

REQUIRED

- (a) State **three** different types of expenditure that would be included in the valuation of closing stock of finished goods of a manufacturing company. *(3 marks)*
- (b) Explain the effects that over-stating the cost of stock would have on the final accounts and balance sheet of a company. *(7 marks)*

2

Total for this question: 10 marks

The following is an extract from the accounting policies of a public limited company.

Tangible fixed assets

Depreciation is calculated on a straight-line or reducing-balance basis.

Depreciation is not provided on freehold land. On other assets the rates of depreciation are as follows:

| | |
|--------------------|-------------------------|
| freehold buildings | 2.5% per annum |
| fitness equipment | 12.5 to 16.7% per annum |
| computer equipment | 33.3% per annum |

REQUIRED

With reference to FRS 15:

- (a) define the term “depreciation”; *(3 marks)*
- (b) explain why companies are allowed to choose between the straight-line and reducing-balance methods of calculating depreciation; *(3 marks)*
- (c) explain why depreciation is provided on freehold buildings but not on freehold land. *(4 marks)*

3

Total for this question: 12 marks

Below are extracts from the annual report of a public limited company.

GROUP PROFIT AND LOSS ACCOUNT
Year ended 30 September 2002

| | £m |
|-------------------------------|--------------|
| Profit for the financial year | 106.7 |
| Dividends | |
| Equity | (35.2) |
| Non-equity | <u>(1.0)</u> |
| Profit retained | <u>70.5</u> |
| Earnings per share | 24.08p |

NOTE TO THE ACCOUNTS

SHARE CAPITAL
Allotted, called up and fully paid
474 684 480 ordinary shares of 10p each

Additional Information

The market price of a share at 30 September 2002 was 120 pence.

REQUIRED

- | | |
|--|------------------|
| (a) Calculate the following ratios (state the formula used): | |
| (i) dividend per share; | <i>(3 marks)</i> |
| (ii) price earnings ratio. | <i>(3 marks)</i> |
| (b) Explain the purpose of the price earnings ratio. | <i>(2 marks)</i> |
| (c) Outline two limitations of using published accounts to make investment decisions. | <i>(4 marks)</i> |

Turn over ►

Mellors plc and Balden plc have both recently made a rights issue on the basis of 1 share for every 2 held at a premium of 50 pence. Extracts from the balance sheets following the issues are shown below.

Balance Sheet extracts as at 1 December 2002

| | Mellors plc £m | Balden plc £m |
|--|---------------------------------|--------------------------------|
| Creditors: | | |
| amounts falling due after more than one year | | |
| Debentures | <u>125</u> | <u>200</u> |
| Capital and Reserves: | | |
| Called up share capital (ordinary shares of £1 each) | 150 | 150 |
| Share premium account | 75 | 25 |
| Profit and loss account | 25 | 75 |

Mellors plc has used all the funds generated by the rights issue to redeem some of its debentures. Balden plc has invested all its proceeds in 'state of the art' technology for its business.

The gearing ratios for the two companies are:

| | |
|--------------------|-------------------|
| Mellors plc | Balden plc |
| 50% | 80% |

REQUIRED

- (a) Prepare balance sheet extracts for Mellors plc and Balden plc to show the position **before** the rights issues. *(5 marks)*
- (b) Calculate the gearing ratios for Mellors plc and Balden plc before the rights issues (show the formula used). *(3 marks)*
- (c) Explain the term "gearing". *(4 marks)*
- (d) Assess the usefulness of the gearing ratio as a guide to investment decisions. Use examples from the information given. *(6 marks)*

5

Total for this question: 50 marks

The following information has been prepared for Crosby plc in order to prepare a cash flow statement for the year ended 30 September 2002. The information is incomplete as it does not provide details of the management of liquid resources or of financing.

| | £m |
|---|-----------|
| Operating profit | 112 |
| Depreciation charges | 58 |
| Profit on sale of assets | 1 |
| Decrease in stocks | 4 |
| Increase in debtors | 122.7 |
| Increase in creditors | 55.3 |
| Interest paid | 48 |
| Tax paid | 18 |
| Purchase of fixed assets | 194 |
| Sale of fixed assets | 2 |
| Dividends paid | 36 |
| Cash outflow before use of liquid resources and financing | 188.4 |

REQUIRED

- (a) Prepare an extract from the cash flow statement based on the figures above. Follow the format given in FRS 1. *(10 marks)*
- (b) Analyse the cash flow statement, identifying clearly the major sources and uses of cash. *(10 marks)*
- (c) Evaluate **three** appropriate sources of finance to meet the cash outflow. *(10 marks)*
- (d) Explain the difference between a cash flow statement and a cash budget. *(6 marks)*
- (e) Evaluate the significance of preparing cash budgets when making investment decisions. *(6 marks)*
- (f) Crosby plc has a loss-making operation, which is draining vital cash from the business. Analyse **two** factors which the board would have to take into account before deciding to close down the loss-making operation. *(8 marks)*

END OF QUESTIONS