General Certificate of Education
June 2005
Advanced Level Examination

ACCOUNTING **ACC6**

Unit 6 Published Accounts of Limited Companies and Accounting Standards

Friday 24 June 2005 Afternoon 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 3 is the synoptic question which assesses your understanding of the relationship between 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.

NO QUESTIONS APPEAR ON THIS PAGE

Answer **all** questions.

1 **Total for this question:** ***20 marks***

The draft profit and loss account for Murray Ltd for the year ended 31 May 2005 showed a net profit of £1 355 675. The subsequent audit revealed a number of items where the accounting treatment did not comply with accounting standards and would affect the draft net profit.

Items

(1) A batch of stock had been included in the draft accounts at cost of £15 000. This had been damaged. It was estimated that the stock could now be sold for £5500, but the sale would incur costs of £500.

(2) Intangible assets on the balance sheet included £500 000 for internally generated brand names. There is no readily ascertainable market value for these brands.

(3) Murray Ltd had purchased the business of a competitor on 1 June 2004. As part of the purchase price, Murray Ltd paid £200 000 for goodwill. The economic life of the goodwill was estimated to be 10 years. No amortisation had been charged to the profit and loss account.

(4) On 1 June 2004, the land and buildings were revalued. The revaluation increased the value by £400 000. Land and buildings are depreciated at 2% per annum using the straight-line method. The depreciation charge for the year was based on the original cost.

(5) The accountant has not made a provision for doubtful debts this year. It is company policy to maintain a provision for doubtful debts of 3% of debtors. Debtors have increased by £180 000 during the year, but no adjustment to the provision has been made in the profit and loss account.

REQUIRED

(a) State the relevant Accounting Standard for each of items (1) to (5). *(5 marks)*

(b) Prepare a statement showing the effect of items (1) to (5) on the draft profit. *(10 marks)*

(c) Explain the role of an auditor. *(5 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ▶

2 **Total for this question:** ***30 marks***

The accountant of Prioram plc prepared the following draft cash flow statement.

	£000	£000
Net cash inflow from operating activities		33 761
Returns on investment and servicing of finance		
Interest received	828	
Interest paid	(327)	
Net cash outflow from returns on investment and servicing of finance		501
Taxation paid		(7 328)
Capital expenditure and financial investment		
Receipts from sale of fixed assets	761	
Payment to acquire fixed assets	(33 685)	
Net cash outflow from capital expenditure and financial investment		(32 924)
Equity dividends paid		
Interim dividend		(2 000)
Cash outflow before management of liquid resources and financing		(7 990)
Financing		—
Increase/decrease in cash in year		(7 990)

The decrease in cash in the year did not agree with the decrease in cash as calculated between balance sheet dates. However, the draft cash flow statement did **not** include the following transactions.

(1) Surplus fixed assets had been sold for £239 000. However, the profit on disposal **had** been included in the net cash inflow from operating activities.

(2) A rights issue of ordinary shares was made on the basis of 1 share for every 4 held. The shares were issued at a premium of 50p per share. The rights issue was fully subscribed. The issued share capital of Prioram plc before the rights issue was 40 million ordinary shares of £1 each.

(3) The proceeds from the rights issue were used to:
- (i) pay a final ordinary dividend of 7.5p per share, based on the shares issued before the rights issue;
- (ii) repay a loan of £8 500 000;
- (iii) purchase fixed assets of £3 500 000.

REQUIRED

(a) Prepare a revised cash flow statement to include transactions (1) to (3). *(10 marks)*

(b) Explain why public companies publish cash flow statements. *(8 marks)*

(c) Evaluate the use of a rights issue as a means of raising finance for Prioram plc. *(12 marks)*

TURN OVER FOR THE NEXT QUESTION

3 **Total for this question:** ***50 marks***

Giuditta has £50 000 to invest and is considering buying ordinary shares in Marjen plc. She has obtained the profit and loss account and balance sheet shown below, together with selected ratios for the last four years.

Marjen plc

Profit and Loss Account for the year ended 31 March 2005

	£000
Turnover	5655
Cost of sales	(4055)
Gross profit	1600
Net operating expenses	(806)
Operating profit	794
Interest payable	(180)
Net profit	614
Taxation	(80)
Dividends	(200)
Retained profit for the year	334
Earnings per share	13.35p

Balance Sheet at 31 March 2005

	£000
Fixed assets	5152
Current assets	
Stock	785
Debtors	530
Cash	156
	1471
Creditors: due within one year	687
Net current assets	784
Total assets less current liabilities	5936
Creditors: due after more than one year	2000
Net assets	3936
Capital and reserves	
Called-up share capital*	2000
Profit and loss account	1936
	3936

* Ordinary shares of 50p each

Ratios for the years ended	31 March 2001	31 March 2002	31 March 2003	31 March 2004
Gross profit margin	43.57%	39.95%	35.42%	31.42%
Net profit margin	10.68%	11.19%	12.17%	8.94%
Return on capital employed	13.88%	11.21%	12.48%	10.21%
Current ratio	2.79:1	2.73:1	2.35:1	2.09:1
Acid test ratio	1.86:1	1.63:1	1.01:1	0.80:1
Dividend per share	2p	2.25p	2.5p	3p
Dividend yield	6.67%	5.63%	4.17%	3.75%
Price/earnings ratio	2.36	5.26	6.03	9.64

Additional information

The market price of an ordinary share at 31 March 2005 was 140p.

REQUIRED

(a) Calculate the following ratios for the year ended 31 March 2005. State the formulae used.

(i) Gross profit margin

(ii) Net profit margin

(iii) Return on capital employed

(iv) Current ratio

(v) Acid test ratio

(vi) Dividend per share

(vii) Dividend yield

(viii) Price/earnings ratio

(16 marks)

(b) Assess the performance of Marjen plc over the five years with reference to:

(i) profitability; *(9 marks)*

(ii) liquidity; *(6 marks)*

(iii) investment potential. *(9 marks)*

(c) Advise Giuditta whether or not she should invest in the ordinary shares of Marjen plc. Your advice should be based on your assessment made in (b) and other relevant factors. *(10 marks)*

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE