OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE UNIT **2505**

ACCOUNTING

Company Accounts and Interpretation

FRIDAY 19 JANUARY 2007

Afternoon
Time: 1 hour 30 minutes

Each candidate must be given: (1) one copy of this question paper, 2505;
(2) Answer Booklet (8 pages)
Item (2) is sent with the stationery parcel

Candidates may use calculators in this examination.

INSTRUCTIONS TO CANDIDATES

- Complete the front page of the Answer Book as directed.
- Answer **all** questions.
- You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

- The maximum mark for this paper is 100.
- **Continuous prose responses are required to questions in this paper. You will be assessed on your form and style of writing, the clarity and coherence of your organisation of information, your use of specialist accounting vocabulary and conventions, the legibility of text and your spelling, grammar and punctuation.**

This document consists of **4** printed pages.

Answer **all** questions.

1 The following balances were extracted from the books of Lusby plc on 31 December 2006.

	Dr £	Cr £
Purchases	300 000	
Sales		1 500 000
Stock 1 January 2006	51 500	
Discounts	4 200	2 300
Sales returns	5 300	
Ordinary shares at £1 each		1 200 000
Administrative expenses	84 000	
Distribution costs	76 000	
Rent receivable		15 000
Profit and Loss	32 000	
Debtors	48 500	
Creditors		32 000
Land and buildings	1 900 000	
Office equipment	420 000	
Delivery vehicles	310 000	
Provision for depreciation – office equipment		172 000
Provision for depreciation – delivery vehicles		115 000
Share premium		600 000
Bank	174 800	
Salaries	230 000	
	3 636 300	3 636 300

Additional information:

(i) The closing stock was valued at £53 000.

(ii) Administrative expenses prepaid £10 200.
Distribution costs owing £8 400.

(iii) Rent receivable of £1 200 is outstanding for the year.

(iv) Salaries are to be split equally between administrative expenses and distribution costs.

(v) A provision for doubtful debts of £2 300 is to be created.

(vi) An independent surveyor has revalued the land and buildings to £2 100 000. No entry has been made in the accounts for this revaluation. Land and buildings are not depreciated.

(vii) Depreciation is to be provided as follows:
delivery vehicles 20% per annum on cost;
office equipment 10% per annum on the written down value.
Depreciation on delivery vehicles is included under distribution costs, while depreciation on office equipment is split equally between administrative expenses and distribution costs.

(viii) The directors recommend a transfer to a general reserve of £150 000 and an ordinary share dividend of £230 000. Corporation tax for the year is estimated at £148 000.

REQUIRED

(a) The Profit and Loss Account for the year ended 31 December 2006 (in accordance with the minimum requirements for publication). [21]

(b) The Balance Sheet as at 31 December 2006. [16]

Total marks [37]

2 The following data was taken from the accounting records of Agrawel Ltd for the year ended 31 December 2006.

(i) Tangible fixed assets at cost 1 January 2006 were:

	£
Land and buildings (Land £250 000)	400 000
Motor vehicles	180 000
Office equipment	70 000

(ii) Depreciation at 1 January 2006:

Land and buildings	30 000
Motor vehicles	90 000
Office equipment	20 000

Agrawel Ltd depreciates fixed assets as follows:
Buildings 2% per annum on cost using the straight line method.
Motor vehicles 20% per annum using the reducing balance method.
Office equipment 10% per annum on cost using the straight line method.
A full year's depreciation is charged in the year of purchase and none in the year of sale.
Land is not depreciated.

(iii) On 12 January 2006, the land was revalued at £400 000.

(iv) During May 2006, office equipment originally purchased at a cost of £2 000, with a written down value of £500, was sold for a profit of £150.

(v) A motor vehicle purchased on 1 July 2004 for £15 000 was sold for £2 500 during November 2006.

(vi) During the year the following assets were bought:

Motor vehicles	£34 000
Office equipment	£12 000

REQUIRED

(a) A Schedule of Fixed Assets for the year ended 31 December 2006. [20]

(b) Agrawel Ltd is considering a new product for launch in 2008 and this will require a substantial investment in research and development. Discuss how research and development expenditure should be treated in the final accounts of Agrawel Ltd. [6]

(c) Other than the issue of shares, discuss ways in which Agrawel Ltd could finance an investment in research and development. [8]

Total marks [34]

3 Ponting plc has an authorised share capital of £8 000 000. On 1 November 2006, it had already issued 6 000 000 fully paid ordinary shares at a par value of £0.50 each. It has offered the public a further 4 000 000 ordinary shares at £1.25 each.

The terms of the issue were £0.50 payable on application, £0.60 on allotment and the balance at a later date.

On 6 November 2006 applications were received for 5 000 000 ordinary shares. On 12 November 2006 applications for 500 000 shares were rejected and the application monies returned to the applicants.

The remainder of the excess application money was retained to be set off on a pro rata basis against the amount due on allotment. The amount due on allotment money was received in full on 20 November 2006.

REQUIRED

(a) The ledger accounts to record the above transactions to 20 November 2006 (balancing of the accounts is not required). [17]

(b) Using illustrations from the information above explain each of the following:

(i) par value; [2]
(ii) authorised share capital; [2]
(iii) share premium. [2]

(c) In addition to the ordinary share issue, Ponting plc is also considering an issue of debentures. Discuss the implications to Ponting plc of an issue of debentures. [6]

Total marks [29]