OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE UNIT **2505**

ACCOUNTING

Company Accounts and Interpretation
3808/7808

FRIDAY 22 JUNE 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.

CUP/T20444

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 **7** printed pages and **1** blank pages.

Answer **all** questions.

1 On 28 February 2007 the following balances were extracted from the books of Bedford Manufacturing Ltd.

	£
Stocks 1 March 2006	
Raw materials	42 500
Work in progress	38 300
Finished goods	52 500
Purchases of raw materials	620 000
Direct expenses	73 100
Indirect wages	41 000
Direct wages	153 200
Sales	1 500 000
Debtors	95 000
Sales returns	4 000
Loan interest	1 200
Rent and rates	20 000
Insurance	2 000
Office expenses	140 500
Premises at cost	130 000
Provision for depreciation – premises	26 000
Plant and equipment at cost	90 000
Provision for depreciation – plant and equipment	44 000
Provision for unrealised profit	2 500
Bad debts	1 100
Provision for doubtful debts	4 500
Loan (10% interest per annum)	24 000

Additional information.

(i) Stocks as at 28 February 2007:

Raw materials	£39 300
Work in progress	£37 550
Finished goods	£78 750

(ii) The business transfers finished goods from the factory to the trading account at cost plus 5% profit on manufacturing. A provision is to be made for unrealised profit on the stock of finished goods at 28 February 2007 of £3 750.

(iii) The loan was taken out on 1 March 2006.

(iv) Rent and rates are apportioned between the factory and the office on the basis of 4:1. Rent of £5 000 is outstanding.

(v) Insurance which includes a prepayment of £200, is apportioned between the factory and the office on the basis of 5:1.

(vi) Provision for depreciation is to be made as follows:

Premises 5% on cost to be apportioned 4:1 between the factory and the office.
Plant and equipment 20% on the written down value to be apportioned 7:1 between the factory and the office.

(vii) Provision for doubtful debts is to be provided at 5% of debtors.

REQUIRED

(a) A Manufacturing, Trading and Profit and Loss Account for the year ended 28 February 2007 (internal use). [32]

(b) Bedford Manufacturing Ltd is considering revaluing its land. It has been suggested that it could use the gain to pay a dividend to the shareholders. Discuss whether or not this suggestion is appropriate. [6]

Total marks [38]

2 Lister plc planned to implement an expansion programme during the year ended 31 December 2006. The Balance Sheets at 31 December 2005 and 2006 are shown below.

	31 December 2005		31 December 2006	
	£	£	£	£
Fixed Assets (net)		1 000 000		1 700 000
Current Assets				
Stock	420 000		480 000	
Debtors	210 000		180 000	
Prepayment	20 000		10 000	
Bank	130 000		–	
	780 000		670 000	
Creditors falling due within one year				
Creditors	118 000		150 000	
Corporation tax	90 000		70 000	
Bank overdraft	–		110 000	
Dividends	60 000		80 000	
	268 000		410 000	
Net Current Assets		512 000		260 000
		1 512 000		1 960 000
Creditors falling due after more than one year				
Loans		150 000		220 000
		1 362 000		1 740 000
Capital and Reserves				
Ordinary Shares		700 000		900 000
Share Premium		350 000		450 000
Revaluation Reserve		–		100 000
General Reserve		200 000		200 000
Profit and Loss		112 000		90 000
		1 362 000		1 740 000

Additional information.

(i) The total depreciation included in the accounts was £420 000 at 31 December 2005 and £530 000 at 31 December 2006.

(ii) During the year ended 31 December 2006 a fixed asset costing £300 000, book value £90 000, was sold for £40 000 cash. No other disposals took place.

(iii) The revaluation reserve represents a revaluation of premises during the year ended 31 December 2006.

REQUIRED

(a) A Cash Flow Statement in accordance with FRS1 for the year ended 31 December 2006. [25]

(b) Comment on the financial implications for Lister plc of its expansion plans. [8]

Total marks [33]

3 The following is a summary of the final accounts of Crossan plc for the year ended 31 March 2007.

Profit and Loss Account for the year ended 31 March 2007

	£	£
Turnover		600 000
Cost of sales		280 000
Gross profit		320 000
Distribution costs	90 000	
Administrative expenses	120 000	210 000
Operating profit		110 000
Interest payable		30 000
Profit before tax		80 000
Corporation tax		25 000
Profit after tax		55 000
Profit and loss brought forward		15 000
		70 000
Ordinary dividend	50 000	
Transfer to reserves	10 000	60 000
Retained profit		10 000

Balance Sheet as at 31 March 2007

	£	£
Fixed Assets		900 000
Current Assets		
Stock	220 000	
Debtors	50 000	
Bank	30 000	
	300 000	
Creditors falling due in less than one year		
Creditors	130 000	
Dividends	50 000	
Taxation	25 000	
	205 000	
Net Current Assets		95 000
		995 000
Creditors falling due in more than one year		
5% Debentures		600 000
		395 000
Capital and Reserves		
Ordinary shares of £1		200 000
Share premium		50 000
General reserve		135 000
Retained profit		10 000
		395 000

Authorised share capital is 800 000 £1 shares. The current market value is £2.50 per share.

REQUIRED

(a) Calculate each of the following (where appropriate calculations should be to two decimal places):

(i) return on capital employed; [2]
(ii) current ratio; [2]
(iii) liquid ratio; [2]
(iv) interest cover; [3]
(v) gearing ratio; [3]
(vi) earnings per share; [2]
(vii) dividend yield; [4]
(viii) price earnings ratio. [3]

(b) The directors of Crossan plc are considering a rights issue of a further 200 000 ordinary shares at £1.50 per share. Discuss how this would affect:

(i) the gearing ratio; [4]
(ii) the capital structure. [4]

Total marks [29]

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