



ADVANCED GCE ACCOUNTING

Company Accounts and Interpretation

F004

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

**Tuesday 15 June 2010
Afternoon**

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (*).
- In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

- 1 On 31 March 2010 the following balances were extracted from the books of Chung Ltd.

	£
Stocks 1 April 2009:	
Raw materials	76 850
Work in progress	116 000
Finished goods	110 200
Purchases of raw materials	1 160 000
Sales	3 625 000
Direct wages	652 500
Carriage on raw materials	8 700
Indirect wages	98 600
Purchase returns	26 825
Debtors	120 000
Sales returns	31 900
Rates and insurance	55 100
General factory overheads	134 850
Loan interest	7 250
Office salaries	116 000
General office expenses	145 000
Premises	870 000
Machinery	319 000
Provision for depreciation of machinery	58 000
Long term 10% loan	145 000
Provision for doubtful debts	5 510

Additional information.

- (i) Stocks as at 31 March 2010:
- | | |
|------------------|---------|
| | £ |
| Raw materials | 68 150 |
| Work in progress | 133 400 |
| Finished goods | 98 600 |
- (ii) Loan interest owing £7 250.
- (iii) The provision for doubtful debts is to be provided at 5% of debtors.
- (iv) Rates and insurance are apportioned between the factory and the general office on the basis of 4:1. Rates and insurance owing £1 500.
- (v) Provision is to be made for depreciation as follows:
- premises – 5% on cost apportioned between the factory and the general office on the basis 4:1.
 - machinery – 15% reducing balance method. All the machinery is used in the manufacturing process.

REQUIRED

(a)* The Manufacturing, Trading and Profit and Loss Account for the year ended 31 March 2010. [27]

(b) Chung Ltd proposes to transfer finished goods from the Manufacturing Account to the Trading Account at market price. Discuss the application of the prudence and realisation concepts in relation to this proposal. [6]

Total marks [33]

- 2 The following is a summary of the final accounts of Laurent plc for the year ended 31 March 2010.

Profit and Loss Account for year ended 31 March 2010

	£	£
Turnover		620 000
Cost of sales		<u>300 000</u>
Gross profit		320 000
Distribution costs	70 000	
Administrative expenses	<u>130 000</u>	<u>200 000</u>
Operating profit		120 000
Interest payable		<u>20 000</u>
Profit before tax		100 000
Corporation tax		<u>25 000</u>
Profit after tax		75 000
Profit and loss brought forward		<u>15 000</u>
		90 000
Ordinary dividend	60 000	
Transfer to reserves	<u>10 000</u>	<u>70 000</u>
Retained profit		<u>20 000</u>

Balance Sheet as at 31 March 2010

	£	£
<i>Fixed Assets</i>		800 000
<i>Current Assets</i>		
Stock	230 000	
Debtors	40 000	
Bank	<u>20 000</u>	
	290 000	
<i>Creditors: Amounts due in less than 1 year</i>		
Creditors	150 000	
Dividends	60 000	
Taxation	<u>30 000</u>	
	240 000	
<i>Net Current Assets</i>		<u>50 000</u>
		850 000
<i>Creditors: Amounts due in more than 1 year</i>		
5% Debentures		<u>400 000</u>
		<u>450 000</u>
<i>Capital and Reserves</i>		
£1 Ordinary shares		200 000
Share premium		50 000
General reserve		180 000
Retained profit		<u>20 000</u>
		<u>450 000</u>

Authorised Share Capital is 800 000 £1 ordinary shares. The current market value is £2.50 per ordinary share.

REQUIRED

- (a) Calculate each of the following (where appropriate calculations should be to two decimal places).
- (i) gross profit as a percentage of turnover; [2]
 - (ii) return on capital employed; [2]
 - (iii) sales to capital employed; [2]
 - (iv) current ratio; [2]
 - (v) liquid ratio; [2]
 - (vi) interest cover; [3]
 - (vii) dividend cover; [3]
 - (viii) gearing ratio; [3]
 - (ix) earnings per share. [3]
- (b)* Explain what is meant by the 'liquid ratio' and discuss how Laurent plc could improve its liquid ratio. [10]

Total marks [32]

- 3** Blyton plc has an authorised share capital of 4 000 000 ordinary shares at £1.00 each. As at 1 December 2009 it had already issued 2 000 000 fully paid ordinary shares at par.

Blyton plc decided to offer to the public a further 1 000 000 ordinary shares at £2.00 each. The terms of the issue are £0.60 payable on application, £0.80 on allotment and the balance at a later date.

On 10 December 2009, applications had been received for 1 500 000 shares, and on 18 December applications for 250 000 shares were rejected. The money was returned to the unsuccessful applicants. The remainder of the excess application money was retained and set off on a pro-rata basis against the amount due on allotment. The remainder of the allotment money was received on 29 December 2009. On 20 January 2010 a final call was made. All the call money was received, except for the amount due on 5 000 shares.

REQUIRED

- (a)** Prepare journal entries to record the above transactions up to 20 January 2010. No narratives or dates required. **[23]**
- (b)** Explain each of the following sources of finance and recommend which of these sources of finance would be most appropriate for a company such as Blyton plc which wants to expand its sales and distribution network:
- factoring
 - preference shares
 - leasing

[12]

Total marks [35]

BLANK PAGE

**Copyright Information**

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.