OCR
RECOGNISING ACHIEVEMENT

Thursday 26 January 2012 – Afternoon

A2 GCE ACCOUNTING

F013/01/RB Company Accounts and Interpretation

RESOURCE BOOKLET

To be given to candidates at the start of the examination

Duration: 1 hour 30 minutes

F027060112

INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–3 is contained within this resource booklet.

INFORMATION FOR CANDIDATES

- Your Quality of Written Communication will be taken into account when marking your answers to the two questions/sub-questions labelled with an asterisk (*).
- 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.
- There will be adequate space to show your workings.
- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER / INVIGILATOR

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1 The following balances were extracted from the books of Colclough plc on 31 May 2011.

	Dr	Cr
	£	£
Stocks at 1 June 2010:		
Raw materials	28 000	
Work in progress	45 000	
Finished goods	56 000	
Purchases of raw materials	730 000	
Purchase returns		18 000
Direct wages	120 000	
Indirect wages	67 000	
Debtors	84 000	
Creditors		73 000
Sales		1 900 000
Plant and machinery at cost	225 000	
Provision for depreciation of plant and machinery		68 000
Office equipment	50 000	
Provision for depreciation of office equipment		25 000
Salaries	81 000	
Bad debts	7 000	
General administrative expenses	93 000	
General distribution costs	75 000	
Carriage outwards	12 000	
Provision for doubtful debts		2 800
General reserves		65 000
Ordinary shares (25 pence each)		300 000
Rates and insurance	17 000	
Commission received		28 000
Debenture interest	2 000	
5% Debenture (2008 – 2015)		80 000
Bank		26 000
Factory overheads	93 000	
Premises	800 800	
	2 585 800	2 585 800

Additional information:

(i) Stocks as at 31 May 2011:

	£
Raw materials	24 000
Work in progress	32 000
Finished goods	70 000

(ii) Plant and machinery is used only in the factory. Depreciation is to be provided using the reducing balance method at a rate of 15% per annum.

Office equipment is depreciated at 20% per annum using the straight line method and is split equally between administrative expenses and distribution costs.

No depreciation is charged on premises.

(iii) Commission received of £4 700 is owing at 31 May 2011.

(iv) Salaries are apportioned as follows:

- Factory three-tenths
- Administrative expenses three-tenths
- Distribution costs four-tenths

(v) Rates of £4 000 are prepaid at 31 May 2011.

Rates and insurance are apportioned as follows:

- Factory two-fifths
- Administrative expenses two-fifths
- Distribution costs one-fifth

(vi) Distribution costs of £5 600 are owing at 31 May 2011.

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

(viii) Corporation tax is estimated at £165 000.

(ix) The directors have recommended an ordinary dividend of 35 pence per share.

(x) There was no retained profit at 1 June 2010.

REQUIRED

(a) The Manufacturing Account for the year ended 31 May 2011 (for internal use only). **[8]**

(b)* The Profit and Loss Account for the year ended 31 May 2011, **and** the Balance Sheet as at 31 May 2011 (in accordance with the minimum required for publication). **[29]**

Total marks [37]

2 The following is an extract from the Balance Sheet of Webb plc as at 31 December 2011.

	£
£1 Ordinary shares	500 000
£1 10% Preference shares	800 000
8% Debentures (2005–2015)	1 200 000

There was no other capital and reserves.

Profit for the year ended 31 December 2011 before charging interest on debentures, was £376 000. The preference share dividends will be paid in full.

Additional information:

Market price per ordinary share	£2.50
Proposed ordinary dividend rate	20%

REQUIRED

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

(i) earnings per share **[3]**

(ii) dividend yield **[3]**

(iii) interest cover **[3]**

(iv) return on capital employed **[3]**

(b)* Discuss the implications of gearing for the ordinary shareholders of Webb plc. **[12]**

Total marks [24]

3 Manson plc had an issued share capital of 800 000 fully paid ordinary shares of £0.75 each as at 1 January 2011. These were issued at par value.

On 1 March 2011 Manson plc made a rights issue of one for four shares at £1.25 per share. All of the money for the issue was received in May 2011.

On 1 July 2011 Manson plc paid an interim dividend of £0.05 per share on the number of ordinary shares at that date.

REQUIRED

(a) Prepare journal entries to record the transactions which took place in March, May and July 2011 (narratives are not required). **[7]**

(b) Manson plc would like to improve its liquidity and profitability position for the next financial year.

Discuss the implications of using each of the following methods of finance on liquidity and profitability of Manson plc.

(i) Overdraft **[4]**

(ii) Factoring **[4]**

(iii) Operating lease **[4]**

Total marks [19]

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