OCR
RECOGNISING ACHIEVEMENT

Tuesday 22 January 2013 – 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

F027060113

INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–3 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

- The quality of your written communication will be taken into account in marking your answers to the two questions/sub-questions marked 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

- Do not send this Resource Booklet for marking; it should be retained in the centre or recycled. Please contact OCR Copyright should you wish to re-use this document.

1 On 31 December 2012 the following balances were extracted from the books of Westwood Ltd.

	£
Stocks at 1 January 2012:	
Raw materials	84 300
Work in progress	112 300
Finished goods	109 600
Purchases of raw materials	950 000
Direct wages	590 000
Carriage on raw materials	7 300
Purchase returns of raw materials	26 900
Indirect wages	120 500
Sales	3 280 000
Commission received	20 000
Debtors	148 000
Sales returns	35 600
Rates and insurance	55 300
General factory overheads	164 200
Loan interest	2 500
Office salaries	180 000
General office expenses	135 100
Factory machinery	320 000
Equipment	140 000
Provision for depreciation of factory machinery	90 000
Provision for depreciation of equipment	38 000
Land and buildings (Land £1 000 000)	1 530 000
Long term 5% loan	200 000
Provision for doubtful debts	10 800

Additional information:

(i) Stocks at 31 December 2012:

Raw materials	£73 000
Work in progress	£128 000
Finished goods	£88 400

(ii) Rates and insurance owing £2 000
Rates and insurance are apportioned 4/5 factory and 1/5 general office.

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

Buildings 5% on cost apportioned 3/5 factory and 2/5 general office.
Land is not depreciated.

Factory machinery 20% reducing balance method. All machinery is used for manufacturing.

Equipment 15% on cost apportioned 3/4 factory and 1/4 general office.

(iv) Loan interest is owing from 1 April 2012.

(v) A customer owing £9 300 has now been declared bankrupt and this debt must be written off. A provision for doubtful debts of 5% is to be created on the remaining debtors.

REQUIRED

(a)* The Manufacturing, Trading and Profit and Loss Account for the year ended 31 December 2012. **[22]**

(b) Westwood Ltd is considering the transfer of finished goods from the manufacturing account to the trading account including manufacturing profit.

Discuss the appropriateness of this proposal. **[6]**

Total marks [28]

2 Arvada plc has an authorised share capital of 200 000 ordinary shares of £2.50 each. The directors have decided to issue all the authorised capital at a premium of £1.50 per share as follows:

	£
Payable on application	1.40
Payable on allotment	1.80
First and final call	0.80

The issue was oversubscribed and applications were received for 300 000 shares. The directors decided to refund the application monies on 50 000 shares. The excess application monies received were held to reduce the sum payable on allotment. The balance of the allotment monies was paid in full.

On the first and final call, payment was received in full, with the exception of one applicant who was allotted 5 000 shares for which no payment was received.

REQUIRED

(a) Prepare journal entries to record the share issue (narratives are not required). **[18]**

(b) The directors of Arvada plc are considering a long term loan from the bank of £2 000 000 at an interest rate of 5%.

Discuss the implications of this proposal for the ordinary shareholders of Arvada plc. **[8]**

Total marks [26]

BLANK PAGE

Question 3 begins on page 6

3 The following is a summary of the final accounts of Hughes plc for the year ended 31 December 2012.

Profit and Loss Account

	£	£
Turnover		1 500 000
Cost of sales		900 000
Gross Profit		600 000
Distribution costs	80 000	
Administrative expenses	120 000	200 000
Operating Profit		400 000
Interest payable		25 000
Profit before tax		375 000
Corporation tax		75 000
Profit after tax		300 000
Profit and loss brought forward		50 000
		350 000
Ordinary dividend	200 000	
Transfer to reserves	100 000	300 000
Retained Profit		50 000

Balance Sheet

	£	£
Fixed Assets (net)		1 200 000
Current Assets		
Stock	200 000	
Debtors	120 000	
Bank	80 000	
	400 000	
Creditors: Amounts due in less than one year		
Creditors	75 000	
Dividends	200 000	
Taxation	75 000	
	350 000	
Net Current Assets		50 000
		1 250 000
Creditors: Amounts due in more than one year		
Long term loans 5%		500 000
		750 000
Capital and Reserves		
£1 Ordinary shares		500 000
General reserve		200 000
Retained profit		50 000
		750 000

The current market value of an ordinary share is £2.50 per share.

REQUIRED

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

(i) Sales to capital employed. **[2]**

(ii) Liquid (acid test) ratio. **[1]**

(iii) Interest cover. **[3]**

(iv) Dividend cover. **[3]**

(v) Gearing ratio. **[3]**

(vi) Dividend yield. **[3]**

(b)* Discuss **three** ways in which Hughes plc could improve its liquidity. **[11]**

Total marks [26]