

Teacher Resource Bank

GCE Accounting

Additional Sample Questions and Mark Schemes

- New/Modified Topics: ACCN2
- Second issue 2010



ACCN2 Additional Specimen Questions

1

Total for this question: 15 marks

The equity section of the balance sheet of Packley plc at 1 January 2009 is shown below.

	£
Equity (capital and reserves)	
Ordinary shares of 50p each	300 000
Share premium	27 500
Revaluation reserve	100 000
Retained earnings	85 670
	513 170

The directors of Packley plc have decided to restructure the balance sheet.

On 1 May 2009 they made a bonus issue of shares. The issue was made on the basis of 1 new share for every 2 existing shares held. The directors retained the reserves in their most distributable form.

On 30 November 2009 the directors paid an ordinary share dividend of 5p per share. All shares in issue at that time qualified for the dividend.

The profit for the year after tax for the year ended 31 December 2009 was £67 050.

1 Prepare the statement of changes in equity for the year ended 31 December 2009.

Workings

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2

Total for this question: 21 marks

The directors of Devas Ltd are concerned about the liquidity of the company. The following balances have been extracted from the trial balance at 31 March 2010.

	DR	CR
	£	£
Bank		24 500
Credit purchases	336 000	
Credit sales		576 890
Inventory (stock)	21 345	
Trade payables (creditors)		38 790
Trade receivables (debtors)	56 500	

Additional information

The inventory (stock) at 31 March 2010 was valued at £26 560.

On 15 March 2010 Dettbad Ltd, a major customer, was liquidated owing £10 680. The directors believe that they will not receive any money from Dettbad Ltd.

2 (a) Calculate the net current asset ratio. State the formula used.

Formula

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Calculation.....

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(5 marks)

2 (b) Calculate the liquid asset ratio. State the formula used.

Formula

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Calculation.....

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(3 marks)

2 (c) Calculate the receivable days (debtors collection period). State the formula used.

Formula

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Calculation.....

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(3 marks)

2 (d) Calculate the payable days (creditors payment period). State the formula used.

Formula

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Calculation.....

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(3 marks)

2 (e) Explain the effect the liquidation of Dettbad Ltd has had on the profitability of Devas Ltd.

Effect on profitability

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(2 marks)

2 (f) Explain the effect the liquidation of Dettbad Ltd has had on the liquidity of Devas Ltd.

Effect on liquidity

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(5 marks)

21

ACCN2 Additional Specimen Questions - Mark Scheme

1

Total for this question: 15 marks

The equity section of the balance sheet of Packley plc at 1 January 2009 is shown below.

	£
Equity (capital and reserves)	
Ordinary shares of 50p each	300 000
Share premium	27 500
Revaluation reserve	100 000
Retained earnings	85 670
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The directors of Packley plc have decided to restructure the balance sheet.

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On 30 November 2009 the directors paid an ordinary share dividend of 5p per share. All shares in issue at that time qualified for the dividend.

The profit for the year after tax for the year ended 31 December 2009 was £67 050.

1 Prepare the statement of changes in equity for the year ended 31 December 2009.

Packley plc Statement of changes in equity for the year ended 31 December 2009

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total	
	£	£	£	£	£	
At 1 January 2009	300 000	27 500	100 000	85 670	513 170	(1)*
Bonus issue	150 000(3)W1	(27 500)(1)	(100 000)(1)	(22 500)(1OF)	0	
Profit for the year				67 050(1)	67 050	
Equity dividends				(45 000)(5)W2	(45 000)	
At 31 December 2009	450 000	0	0	85 220	535 220	(1OF)*

(1OF)#

* 1 mark for row
1 mark for column

W1

Ordinary shares: $\text{£}300\,000 \div 0.50 = 600\,000$ shares $\div 2 = 300\,000$ bonus issue shares (1)

$300\,000 \times \text{£}0.50 = \text{£}150\,000$ (1)

If shown as $300\,000 \div 2 = \text{£}150\,000$ award 2 marks.

Plus one mark for correctly showing issue in share capital.

W2

Share capital $\text{£}300\,000 \times 2 = 600\,000$ shares (1)

Bonus issue 300 000 shares (1OF)

900 000 shares in issue at 30 November 2009

Dividend x 5p (1)

£45 000 (1OF)

Plus 1 mark for correctly deducting from retained earnings

15 marks

2

Total for this question: 21 marks

The directors of Devas Ltd are concerned about the liquidity of the company. The following balances have been extracted from the trial balance at 31 March 2010.

	DR	CR
	£	£
Bank		24 500
Credit purchases	336 000	
Credit sales		576 890
Inventory (stock)	21 345	
Trade payables (creditors)		38 790
Trade receivables (debtors)	56 500	

Additional information

The inventory (stock) at 31 March 2010 was valued at £26 560.

On 15 March 2010 Dettbad Ltd, a major customer, was liquidated owing £10 680. The directors believe that they will not receive any money from Dettbad Ltd.

- 2 (a) Calculate the net current asset ratio. State the formula used.

$$\frac{\text{Current assets}}{\text{Current liabilities}} \quad (1) \quad \frac{(56\,500 - 10\,680 + 26\,560)}{(24\,500 + 38\,790)} \quad (2)W1 \quad \frac{72\,380}{63\,290} = 1.14:1 \quad (1)$$

$$W1 \\ 56\,500 - 10\,680 (1) + 26\,560 (1)$$

5 marks

- 2 (b) Calculate the liquid asset ratio. State the formula used.

$$\frac{\text{Current assets - inventory}}{\text{Current liabilities}} \quad (1) \quad \frac{(56\,500 - 10\,680)}{(24\,500 + 38\,790)} \quad (1OF)* \quad \frac{45\,820}{63\,290} = 0.72:1 \quad (1)$$

* OF based on calculations used in (a)

3 marks

- 2 (c) Calculate the receivable days (debtors collection period). State the formula used.

$$\frac{\text{Trade receivables} \times 365}{\text{Credit sales}} \quad (1) \quad \frac{(56\,500 - 10\,680)(1OF) \times 365}{576\,890} = 29 \text{ days} \quad (1OF)$$

3 marks

- 2 (d) Calculate the payable days (creditors payment period). State the formula used.

$$\frac{\text{Trade payables} \times 365}{\text{Credit purchases}} \quad (1) \quad \frac{38\,790 \times 365}{336\,000} \quad (1) \quad = 43 \text{ days} \quad (1)$$

3 marks

- 2 (e) Explain the effect the liquidation of Dettbad Ltd has had on the profitability of Devas Ltd.

Effect on profitability

The debt would be written off as an expense in the income statement (1).

This would reduce the net profit by £10 680 (1).

This may be significant for the business but we do not have enough information to calculate the profit for the year (1).

Max 2 marks

- 2 (f) Explain the effect the liquidation of Dettbad Ltd has had on the liquidity of Devas Ltd.

Effect on liquidity

The bad debt reduces the receivables figure on the balance sheet (1).

This will reduce both the net current asset ratio and the liquid asset test ratio. (1 for either ratio).

These would be: 1.31:1 and 0.89:1 (1 for calculating effect on both ratios).

However, the bad debt will reduce (1) the receivables days giving the false impression that the business is collecting its debts more quickly (1). The receivable days would have been 37 days had there been no bad debt (1).

Overall this will reduce the liquidity of the business (1), however we do not have enough information to assess the significance of the bad debt (1).

Please note:

Candidates can gain all available marks for explaining the effect, however if they attempt to assess the effect this should be rewarded.

Max 5 marks