

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

ACCOUNTING

Company Accounts and Interpretation
3808/7808

2505

Thursday **19 JANUARY 2006** Morning 1 hour 30 minutes

Each candidate must be given:
(1) one copy of this question paper, 2505;
(2) one 12 page Answer Book.
Item (2) is sent with the stationery parcel.

Candidates may use calculators in this examination.

TIME 1 hour 30 minutes

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 question paper consists of 5 printed pages and 3 blank pages.

Answer **all** questions.

- 1 The following balances were extracted from the books of Spring plc on 31 December 2005.

	Dr £	Cr £
Purchases	400 000	
Turnover		1 192 000
Stock	30 000	
Sales returns	6 000	
£1 Ordinary shares		500 000
General administration expenses	150 000	
General distribution costs	190 000	
Discounts	12 000	14 000
Rent received		30 000
Profit and Loss		42 000
Debtors	62 000	
Creditors		48 000
Land and buildings	744 200	
Office equipment	90 000	
Delivery vehicles	120 000	
Provision for depreciation – office equipment		38 000
Provision for depreciation – delivery vehicles		42 000
General reserve		130 000
Share premium		100 000
Bank	190 000	
Provision for doubtful debts		3 200
Salaries	145 000	
	<u>2 139 200</u>	<u>2 139 200</u>

Additional information:

- (i) The closing stock was valued at £72 000.
- (ii) General administration expenses prepaid £6 800.
General distribution costs owing £5 000.
- (iii) Salaries are split equally between distribution and administration.
- (iv) Rent receivable of £3 400 is outstanding for the year.
- (v) Provision for doubtful debts is to be increased by £800.
- (vi) Depreciation is to be provided as follows:
 - (a) office equipment 20% per annum on cost;
 - (b) delivery vehicles 20% per annum reducing balance method.
 Delivery vehicles are treated under distribution. Office equipment is split equally between distribution and administration.
- (vii) The directors recommend a transfer to the general reserve of £50 000 and an ordinary share dividend of £140 000.
- (viii) Corporation tax for the year is estimated at £120 000.

REQUIRED

- (a) The Profit and Loss Account for the year ended 31 December 2005 (in accordance with the minimum required for publication). [23]
- (b) The Balance Sheet as at 31 December 2005 (in accordance with the minimum required for publication). [13]
- (c) Explain the importance of the Auditor's Report to the shareholders of a plc. [4]
- (d) Spring plc is planning an expansion of the business during 2006 which will require additional fixed assets. Discuss the advantages and disadvantages of the following methods of finance:
 - (i) leasing; [6]
 - (ii) ordinary share issue. [6]

Total marks [52]

- 2 The following financial data was taken from the accounts of Hempinstall Ltd for the last two financial years ended 31 December.

	2004	2005
	£	£
Sales	8 000 000	10 000 000
Net profit	2 000 000	2 000 000
Capital employed	5 000 000	6 000 000

REQUIRED

- (a) Calculate for **each** year:

- the return on capital employed
- **two other** profitability ratios. [6]

- (b) (i) Explain the importance of the return on capital employed to a limited company. [4]

- (ii) Describe how the return on capital employed is related to the other ratios calculated in part (a). [2]

- (iii) Explain why the return on capital employed for Hempinstall Ltd has declined between 2004 and 2005. [4]

Total marks [16]

3 The following is an extract from the Balance Sheet of Hilgerson plc as at 31 December 2004.

<u>Capital and Reserves</u>	£
550 000 Ordinary shares at 25 pence each	137 500
Share Premium	55 000
Profit and Loss	60 000

Hilgerson plc needed £50 000 additional capital to replace machinery.

On 20 July 2005 Hilgerson plc made a rights issue of 50 000 ordinary shares at a premium of 25 pence per share. All the cash was received in July 2005.

On 1 August 2005 Hilgerson plc made a bonus issue of one ordinary share for every six ordinary shares in existence on 1 August 2005. The Share Premium Account was utilised to provide for the bonus issue.

The remaining funds required to purchase the machinery were raised by a bank loan on 10 August 2005.

Assume that no additional profits were generated by Hilgerson plc from 31 December 2004 to 10 August 2005.

REQUIRED

(a) Prepare the following ledger accounts, including the balance carried down in **each** case:

- (i) ordinary share capital; [7]
- (ii) share premium; [7]
- (iii) loan. [3]

(b) Prepare a Balance Sheet extract to show the Capital and Reserves section of Hilgerson plc as at 10 August 2005. [3]

(c) (i) Identify **three** options which are available to a company for the appropriation of its profits. [3]

(ii) Discuss the circumstances in which **each** option would be appropriate. [9]

Total marks [32]

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