OCR
RECOGNISING ACHIEVEMENT

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

ACCOUNTING 2505

Company Accounts and Interpretation

3808/7808

Friday **23 JUNE 2006** Afternoon 1 hour 30 minutes

Each candidate must be given:
(1) one copy of this question paper, 2505;
(2) one 8 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.

SP (SLM) T06731/3

Answer **all** questions.

1 The Balance Sheets for the last two years for Kinghorn plc are shown below. Kinghorn plc implemented an expansion programme during the year ended 31 May 2006.

	31 May 2005		31 May 2006	
	£	£	£	£
Fixed assets (net)		300 000		600 000
Current assets				
Stock	70 000		90 000	
Debtors	38 000		56 000	
Bank	20 000		–	
Cash	8 000		6 000	
	136 000		152 000	
Creditors due in less than one year				
Creditors	38 000		42 000	
Corporation Tax	42 000		52 000	
Overdraft	–		9000	
Dividends	39 000		41 000	
Accruals	4000		6000	
	123 000		150 000	
Net current assets		13 000		2 000
		313 000		602 000
Creditors due in more than one year				
Loans		50 000		150 000
		263 000		452 000
Capital and Reserves				
£1 Ordinary shares		150 000		200 000
Share premium		50 000		100 000
General reserve		40 000		90 000
Revaluation reserve		–		40 000
Profit and loss		23 000		22 000
		263 000		452 000

Additional information:

(i) The total depreciation provision incorporated in the Balance Sheets was £90 000 at 31 May 2005 and £152 000 at 31 May 2006.

(ii) During the year ended 31 May 2006 a fixed asset costing £30 000, book value £12 000, was sold for £5 000. No other disposals took place.

(iii) The revaluation reserve represents a revaluation of premises during the year ended 31 May 2006.

REQUIRED

(a) The Cash Flow Statement in accordance with good accounting format for the year ended 31 May 2006. [27]

(b) Calculate the current ratio and the liquid ratio as at 31 May for **each** year. [4]

(c) Evaluate the effects of the expansion policy on the liquidity position of Kinghorn plc. [8]

Total marks [39]

2 The following data was taken from the accounting records of Darnell plc for the year ended 31 May 2006.

		£
(i)	Tangible fixed assets at cost 1 June 2005:	
	Land and buildings (land £300 000)	550 000
	Machinery	280 000
	Office equipment	180 000
(ii)	Depreciation at 1 June 2005:	
	Land and buildings	80 000
	Machinery	140 000
	Office equipment	90 000

Darnell plc depreciates fixed assets at the following rates per annum:
Buildings 2% straight line on cost;
Machinery 10% reducing balance;
Office equipment 10% straight line on cost.

Land is not depreciated. A full year's depreciation is provided in the year of purchase, but none in the year of sale.

(iii) On 13 August 2005, the land was revalued at £380 000 .

(iv) During July 2005, office equipment originally purchased at a cost of £12 000 and with a written down value of £3 800 was sold at a profit of £1 000.

(v) During the year ended 31 May 2006, the following fixed assets were bought:

Machinery	£8 000
Office equipment	£15 000

With the exception of some office equipment which was bought at a cost of £3 000 in 1994, all other office equipment has been purchased since 1997.

REQUIRED

(a) The Schedule of Fixed Assets for Darnell plc for the year ended 31 May 2006. [20]

(b) **(i)** State the ledger accounting entries for the revaluation of land. [2]

(ii) Explain how the revaluation of land should be treated in the final accounts. [2]

(c) A revaluation reserve is a capital reserve.

(i) Identify **two** other capital reserves. [2]

(ii) State the ledger entries for the creation of each reserve identified in part **(i)**. [4]

(iii) Explain why each reserve identified in part **(i)** would be created. [6]

Total marks [36]

3 The following balances have been taken from the books of Proctor Ltd for the year ended 31 May 2006. Proctor Ltd commenced business on 1 June 2005.

	£
Plant and machinery at cost	300 000
Motor vehicles at cost	180 000
Sales	980 000
Direct wages	75 000
Raw material purchases	230 000
Sales returns	12 000
Purchase returns of raw materials	6 000
Light and power	25 000
Indirect factory wages	82 000
Plant and machinery repairs	18 000
Motor expenses	32 000
Administration expenses	90 000
Salaries	170 000
Rent and insurance	30 000
Debtors	60 000
Carriage inwards	3 000

Additional information:

(i) It is estimated that the plant and machinery will be used in the business for five years with a residual value of £40 000. It is estimated that the motor vehicles will be used in the business for four years with a residual value of £30 000. The straight line method of depreciation is to be used for both machinery and motor vehicles. All motor vehicles are used to deliver goods to customers. All fixed assets were bought on 1 June 2005.

(ii) Stocks valued at cost 31 May 2006:

	£
Raw materials	38 000
Work-in-progress	52 000
Finished goods	48 000

(iii) Light and power owing at 31 May 2006 was £3 000.

(iv) Rent prepaid at 31 May 2006 was £1 500.

(v) Proctor Ltd has discovered that a debtor owing £5 000 has now become bankrupt and this debt cannot be recovered.

(vi) A special provision of £2 000 is to be created, together with a provision of 5% on the remainder of debtors.

(vii) Light and power, rent and insurance are to be apportioned:
3/5 Manufacturing Account;
2/5 Profit and Loss Account.

(viii) Salaries are apportioned equally between manufacturing and administration.

REQUIRED

A Manufacturing, Trading and Profit and Loss Account for the year ended 31 May 2006 (internal use only).

Total marks [25]

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