

**ADVANCED GCE
ACCOUNTING**

F004

Company Accounts and Interpretation

FRIDAY 18 JANUARY 2008

Afternoon

Time: 1 hour 30 minutes

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be used



INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (*).
- In these two questions/sub-questions, you will be assessed on the quality of your written communication. 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.

This document consists of **6** printed pages and **2** blank pages.

1* The following balances were extracted from the books of Waldie plc on 31 May 2007.

	Dr £	Cr £
Purchases	700 000	
Sales		1 500 000
Stock 1 June 2006	54 000	
Discounts	7 200	3 000
Sales returns	5 600	
£1 Ordinary shares		400 000
Ordinary share capital calls not paid	8 000	
Commission received		40 000
General distribution costs	185 000	
General administrative expenses	110 000	
Profit and loss	36 000	
Debtors	60 000	
Creditors		37 400
Office equipment	90 000	
Delivery vehicles	220 000	
Land and buildings	517 400	
Provision for depreciation of office equipment		30 000
Provision for depreciation of delivery vehicles		56 000
General reserve		90 000
Share premium		100 000
Bank	75 000	
Provision for doubtful debts		1 800
Salaries	190 000	
	<u>2 258 200</u>	<u>2 258 200</u>

Additional information.

- (i) Stock at 31 May 2007 was valued at £55 500.
- (ii) General distribution costs owing £2 800.
General administrative expenses prepaid £3 500.
- (iii) Commission receivable of £1 200 is outstanding for the year.
- (iv) The provision for doubtful debts is to be maintained at £1 800.
- (v) During April 2007 an independent surveyor revalued land and buildings to £650 000. No entries have yet been made in the accounts. Land and buildings are not depreciated.
- (vi) Salaries are split equally between distribution costs and administrative expenses.
- (vii) Depreciation is to be provided as follows:
 - office equipment 20% per annum on cost;
 - delivery vehicles 20% per annum reducing balance method.

Office equipment is split equally between distribution costs and administrative expenses.
Delivery vehicles are treated under distribution costs.
- (viii) The directors recommend a transfer to the general reserve of £45 000 and an ordinary share dividend of £125 000.
- (ix) Corporation tax for the year is estimated at £65 000.

REQUIRED

- (a)* The Profit and Loss Account for the year ended 31 May 2007, together with the Balance Sheet as at that date (in accordance with the minimum required for publication). [33]
- (b) (i) Explain the difference between the Share Premium Account and the General Reserve. [4]
- (ii) Discuss how the balance on each of these accounts can be used. [4]

Total marks [41]

- 2 Paras plc has an authorised share capital of 60 000 ordinary shares of £2 each. The directors decided to issue all the authorised capital at a premium of £0.50 per share as follows:

	£
Payable on application	0.50
Payable on allotment	1.00
First and final call	1.00

The issue was oversubscribed and applications were received for 80 000 shares. The directors decided to refund the application monies on 5 000 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 800 shares for which no payment was received.

REQUIRED

- (a) The following ledger accounts to record the above transactions:

- | | |
|---------------------------------|-----|
| (i) bank; | [4] |
| (ii) application and allotment; | [7] |
| (iii) ordinary share capital; | [2] |
| (iv) share premium; | [1] |
| (v) first and final call. | [2] |

Balancing of the accounts is not required.

- (b) In addition to an issue of shares, Paras plc needs to obtain further finance. Assess the appropriate uses of each of the following sources of finance.

- | | |
|--------------------|-----|
| (i) Debentures. | [3] |
| (ii) Leasing. | [3] |
| (iii) Factoring. | [3] |
| (iv) Trade credit. | [3] |

Total marks [28]

- 3 The following is the full Capital and Reserves section of the Balance Sheet for Goydos plc as at 31 December 2007.

Capital and Reserves

	£
£1 Ordinary shares	250 000
General reserve	120 000
Profit and loss	<u>130 000</u>
	<u>500 000</u>

There are no long term liabilities.

Additional information.

	£
Net profit after tax for year ended 31 December 2007	200 000
Proposed ordinary dividend	100 000
Market value of an ordinary share	£4

REQUIRED

- (a) Calculate each of the following:
- (i) Dividend cover; [2]
 - (ii) Earnings per share; [3]
 - (iii) Dividend yield; [3]
 - (iv) Price earnings ratio. [3]
- (b) Explain why the price earnings ratio would be useful to an investor. [4]
- (c)* Assess the limitations of ratio analysis. [10]
- (d) The directors of Goydos plc are considering issuing 200 000 7% £1 Preference shares to raise extra capital. Assess **two** implications of this issue for the ordinary shareholders of Goydos plc. [6]

Total marks [31]

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