OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE **F004**

ACCOUNTING

Company Accounts and Interpretation

FRIDAY 6 JUNE 2008 Morning

Time: 1 hour 30 minutes

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

Additional materials (required):
Calculators may be used

CUP/T59356

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 **7** printed pages and **1** blank page.

1 On 31 December 2007 the following balances were extracted from the books of Wiggins Ltd.

	£
Stocks 1 January 2007	
Raw materials	53 000
Work in progress	80 000
Finished goods	76 000
Purchase of raw materials	800 000
Sales	2 500 000
Direct wages	450 000
Carriage inwards on raw materials	6 000
Indirect wages	68 000
Purchase returns of raw materials	18 500
Debtors	83 000
Sales returns	22 000
Rates and insurance	38 000
General factory overheads	93 000
Loan interest	5 000
Office salaries	80 000
General office expenses	100 000
Premises	600 000
Machinery	220 000
Provision for depreciation of machinery	40 000
Long term loan 10%	100 000
Provision for doubtful debts	3 800

Additional information.

(i) Stocks as at 31 December 2007:

	£
Raw materials	47 000
Work in progress	92 000
Finished goods	68 000

(ii) Loan interest owing £5 000.

(iii) The provision for doubtful debts is to be provided at 5% of debtors.

(iv) Rates and insurance owing £950.
Rates and insurance are apportioned between the factory and the general office on the basis of 4:1.

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

Premises: 5% on cost apportioned between the factory and the general office on the basis 4:1.
Machinery: 15% reducing balance method. All the machinery is used in the manufacturing process.

REQUIRED

(a)* The Manufacturing, Trading and Profit and Loss Account for the year ended 31 December 2007. [26]

(b) **(i)** What is the name of the accounting standard which should be applied to the valuation of closing stock in the accounts of Wiggins Ltd. [1]

(ii) Explain why this accounting standard should be applied. [2]

(c) Wiggins Ltd proposes to transfer finished goods from the Manufacturing Account to the Trading Account at market price. Discuss the application of the prudence and realisation concepts to this proposal. [6]

Total marks [35]

2 The following are the summarised Balance Sheets for Power plc as at 31 March.

	2007		2008	
	£	£	£	£
Fixed Assets				
Premises		1 500 000		2 200 000
Machinery		620 000		740 000
Motor vehicles		240 000		215 000
		2 360 000		3 155 000
Current Assets				
Stock	78 000		84 000	
Debtors	56 000		66 000	
Bank	28 000		17 000	
	162 000		167 000	
Creditors due in less than one year				
Creditors	42 000		78 000	
Corporation tax	38 000		–	
Proposed dividend	56 000		68 000	
	136 000		146 000	
Net current assets		26 000		21 000
Total assets less current liabilities		2 386 000		3 176 000
Capital and reserves				
£1 Ordinary shares		1 800 000		2 300 000
Share premium		300 000		120 000
Revaluation reserve		–		700 000
General reserve		10 000		10 000
Profit and loss		276 000		46 000
		2 386 000		3 176 000

Additional information.

(i) In January 2008 machinery costing £165 000 had been purchased. There were no disposals of machinery during the financial year.

(ii) A motor vehicle with a book value of £20 000 had been sold during November 2007 for £3 000. This had been immediately replaced by a new motor vehicle costing £12 000.

(iii) An interim dividend of £13 000 was paid in October 2007.

(iv) Premises were revalued in August 2007.

(v) In June 2007 there was a bonus issue of one ordinary share for every ten held at 31 March 2007. This was effected by using part of the share premium.

REQUIRED

(a) The Cash Flow Statement in accordance with good accounting practice for the year ended 31 March 2008. [23]

(b) A director of Power plc wishes to use the revaluation reserve to pay dividends to the shareholders. Advise the Board of Directors as to the suitability of this proposal. [6]

(c)* Discuss how the information in the Cash Flow Statement would help a potential investor in Power plc. [12]

Total marks [41]

3 The following are extracts from the Balance Sheets of two companies as at 31 March 2008.

	Rakesh plc	Gordon plc
	£	£
50 pence Ordinary Shares	800 000	1 200 000
£1 8% Preference Shares	300 000	500 000
6% Loans	100 000	200 000

Profits for the year ended 31 March 2008 before charging interest on loans were:

Rakesh plc	Gordon plc
£	£
500 000	800 000

All the preference share dividends were paid in full.

Additional information.

	Rakesh plc	Gordon plc
Market price per share	£1.00	£1.50
Ordinary dividend rate	20%	25%

REQUIRED

(a) Calculate for each company: (where appropriate calculations should be to two decimal places)

(i) earnings per share; [4]

(ii) dividend yield; [4]

(iii) dividend cover; [4]

(iv) price/earnings ratio. [4]

(b) Assess the significance of the dividend yield to a potential investor in a company. [8]

Total marks [24]

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