



ADVANCED GCE ACCOUNTING

Company Accounts and Interpretation

F004

Candidates answer on the Answer Booklet

OCR Supplied Materials:

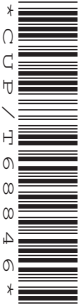
- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

**Friday 16 January 2009
Afternoon**

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- 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.
- The total number of marks for this paper is **100**.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

- 1 The following balances were extracted from the books of Kumble plc on 31 October 2008.

	Dr £	Cr £
Purchases	820 000	
Sales		1 800 000
Stock 1 November 2007	58 000	
Discounts	8 300	4 200
Sales returns	4 600	
£1 Ordinary shares		700 000
£1 6% Preference shares		300 000
Rent received		50 000
General distribution costs	195 000	
General administrative expenses	145 000	
Profit and Loss	56 000	
Debtors	82 000	
Creditors		47 000
Equipment	220 000	
Vehicles	440 000	
Land and buildings	994 600	
Provision for depreciation of equipment		38 000
Provision for depreciation of vehicles		180 000
General reserve		75 000
Share premium		140 000
Bank	64 000	
Provision for doubtful debts		3 300
Salaries	<u>250 000</u>	
	<u>3 337 500</u>	<u>3 337 500</u>

Additional information.

- (i) Stock at 31 October 2008 was valued at £53 000.
- (ii) General distribution costs owing £4 300.
General administrative expenses prepaid £3 000.
- (iii) Salaries are split in the ratio of 3:2 between distribution costs and administrative expenses.
- (iv) Rent receivable of £1 200 has been paid in advance.
- (v) A cheque for £1 500 from a debtor has not been recorded in the accounts.
- (vi) The provision for doubtful debts is to be made up of a specific provision of £800, plus a general provision of 3% on the remainder of debtors.
- (vii) Depreciation is to be provided as follows:
 - equipment 20% per annum on cost;
 - vehicles 25% per annum reducing balance method.
 Equipment is split in the ratio of 3:1 between distribution costs and administrative expenses. Vehicles are treated as a distribution cost.
- (viii) The directors recommend:
 - a transfer to the general reserve of £70 000;
 - an ordinary share dividend of 10 pence per share;
 - the payment of the preference share dividend.
- (ix) Corporation Tax for the year is estimated at £90 000.

REQUIRED

- (a)* The Profit and Loss Account for the year ended 31 October 2008, together with the Balance Sheet as at that date (in accordance with the minimum requirements for publication). [39]

Total marks [39]

2 The following balances were taken from the accounts of Khan plc on 30 November 2008.

	£
£1 ordinary shares	280 000
£1 6% preference shares	180 000
General reserve	90 000
Share premium	140 000
Land and buildings (land £350 000)	800 000

During the month of December 2008 the following took place.

- (i) On 1 December 2008 a one for four rights issue was made at a premium £0.50 per share. Shareholders took up the full rights issue. On the same date, a further 50 000 £1 6% preference shares were issued.
- (ii) A proposed dividend of 20% on the ordinary share balance as at 31 December 2008 utilising the general reserve was declared.
- (iii) An independent surveyor revalued land to £450 000.

REQUIRED

- (a) Journal entries to record each of (i) to (iii) above (narratives are not required). [14]
- (b) The Capital and Reserves section of the Balance Sheet as at 31 December 2008. [5]
- (c) Explain the differences between a bonus issue and a rights issue. [4]
- (d) Discuss why a company might decide to make a bonus issue of shares. [8]

Total marks [31]

- 3 The following information is available for two companies engaged in a similar type of business for the year ended 31 October 2008.

	Gray plc £	Brew plc £
Turnover	900 000	1 200 000
Gross profit	360 000	540 000
Expenses	260 000	275 000
Profit before interest and taxation	100 000	265 000
Interest payable	10 000	25 000
Net profit before tax	90 000	240 000
Net profit after tax	72 000	192 000
Total capital employed	640 000	700 000
£1 ordinary shares	400 000	100 000
£1 5% debentures	200 000	500 000
£1 8% preference shares	40 000	100 000
Market price per ordinary share	1.50	2.00
Ordinary dividend	20 000	50 000
The preference share dividend is paid on time by both companies.		
	%	%
Gross profit as a % of sales	40	45
Net profit as a % of sales	10	20
Return on capital employed	14	34

REQUIRED

- (a)* Assess the relative profitability of Gray plc and Brew plc. [10]
- (b) Calculate for Brew plc: (where appropriate calculations should be made to two decimal places)
- (i) earnings per share; [3]
 - (ii) dividend yield; [3]
 - (iii) interest cover. [2]
- (c) Assess the significance of the earnings per share for the shareholders of Brew plc. [6]
- (d) Assess **two** limitations of ratio analysis. [6]

Total marks [30]

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